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INTRODUCTION

REPORT OVERVIEW

The *Audit Act* requires the Auditor General to report annually to the Legislative Assembly. This 2014 Annual Report provides observations, recommendations, and information pertaining to the audits and examinations of government operations conducted by the Office during the year. Following is a brief overview of our report.

Chapter 2: Information Technology - Governance and IT Contracting

Management of information technology is critical to government operations. The objective of our audit was to determine whether an IT governance model was in place that was consistent with selected aspects of a recognized IT governance framework, and whether IT contracted services were managed in accordance with key aspects of applicable legislation, Treasury Board policies, and best practices for IT contract management.

Chapter 3: Diabetes - Strategy and Organization of Care

Diabetes is a chronic disease that has serious health complications. These health complications impact the quality of life for Islanders with diabetes and create a significant financial burden on the province's healthcare system. The purpose of our audit was to determine whether the Department of Health and Wellness or Health PEI had a strategy to help prevent diabetes related health complications and whether Health PEI had organized its healthcare services in a manner that reflects best practice for diabetes care.

Chapter 4: Child Protection - Internal Controls

Our office was requested by senior management of the Department of Community Services and Seniors to conduct an audit of internal controls over cash payments at one of its sites. We also examined selected IT controls.

Chapter 5: Island Community Fund Grant Program

In 2010, the Department of Fisheries, Aquaculture and Rural Development was assigned responsibility for administering the Island Community Fund grant program, a multi-year, \$27.5 million program.

Introduction

We assessed whether this grant program, as amended by the Department, was designed in accordance with Treasury Board policy and best practice, whether the project approval process was consistent with approved program guidelines and criteria, and whether appropriate internal controls were in place to ensure that successful applicants used the funds as intended.

Chapter 7: Indicators of Financial Condition

We provide information on a number of indicators based on the province's consolidated financial statements. For the year ended March 31, 2013, the province incurred an operating deficit of \$78.6 million, and net debt increased by \$131.5 million amounting to over \$2.0 billion at year end.

Chapter 8: Public Accounts

Each year, we audit the province's consolidated financial statements. This chapter provides our audit opinion as well as comments, observations, and recommendations arising from our work. We also include information to address other reporting requirements under the *Audit Act*.

Chapter 9: Appropriations and Special Warrants

This chapter provides information on appropriations and special warrants for the year ended March 31, 2013. We provide an opinion on whether amounts were expended for the purpose for which they were appropriated.

Chapter 10: Update on Previous Recommendations

Our special audits and examinations result in recommendations to departments and agencies. Each year, we contact these departments and agencies to obtain an update on action taken to address outstanding recommendations from previous audits. Management responses are summarized and reported in this chapter.

Chapter 11: Public Accounts Committee

The Public Accounts Committee reviews the Auditor General's Annual Report and plays an important role in holding government accountable for the management of public resources. Information on the Committee and its review of our Annual Report is provided in this chapter.

Introduction

Chapter 12: Office of the Auditor General

This chapter provides information on the mandate and the responsibilities of the Auditor General. Information is also provided on the objectives and accomplishments of the Office as well as resources, personnel, and professional affiliations.

ACKNOWLEDGEMENTS

I am pleased to present my first Annual Report since my appointment as Auditor General in March 2013. I would like to thank the dedicated professionals in the Office for their support. The audit work completed, the recommendations for improved public sector management, and the preparation of this report are the result of their efforts. Their commitment and professionalism are essential to the work and continued success of this Office.

To maximize the contribution the Office makes to the improved management and control of public resources, the cooperation of ministers, deputy ministers, and senior management and staff of agencies, boards, and Crown corporations is essential. I wish to acknowledge the cooperation received in the completion of the audits covered in this Annual Report.

INTRODUCTION

APERÇU DU RAPPORT

En vertu de la *Audit Act* (loi sur la vérification des comptes publics), le vérificateur général doit déposer un rapport devant l'Assemblée législative tous les ans. Le présent rapport de 2014 fournit des observations, des recommandations et des renseignements sur les vérifications et les examens des activités du gouvernement menés par le Bureau au cours de l'année. Voici un bref aperçu du contenu du rapport.

Chapitre 2 : Technologies de l'information - Gouvernance et impartition des services de TI

La gestion des technologies de l'information revêt une importance cruciale pour les activités du gouvernement. L'objectif de notre vérification était de déterminer si un modèle de gouvernance des TI respectant certains aspects choisis d'un cadre de gouvernance des TI reconnu était en place, et si les services de TI impartis étaient gérés conformément aux aspects clés de la réglementation applicable, aux politiques du Conseil du Trésor ainsi qu'aux pratiques exemplaires en matière de gestion des contrats de TI.

Chapitre 3 : Diabète - Stratégie et organisation des soins

Le diabète est une maladie chronique qui entraîne de graves complications de santé. Ces complications ont des répercussions sur la qualité de vie des Insulaires diabétiques et imposent un fardeau financier considérable au système de santé de la province. L'objectif de notre vérification était de déterminer si le ministère de la Santé et du Mieux-être ou Santé Î.-P.-É. disposait d'une stratégie pour aider à prévenir les complications liées au diabète, et si Santé Î.-P.-É. avait organisé ses services de soins de manière à tenir compte des pratiques exemplaires en matière de soins aux diabétiques.

Chapitre 4 : Protection de l'enfance - Contrôles internes

La haute direction du ministère des Services communautaires et des Aînés a demandé au Bureau de faire une vérification des contrôles internes portant sur les paiements effectués en espèces à l'un de ses établissements. Nous avons aussi examiné certains contrôles informatiques choisis.

Introduction

Chapitre 5 : Programme de subventions du Fonds communautaire de l'Île

En 2010, on a confié au ministère des Pêches, de l'Aquaculture et du Développement rural la tâche d'administrer le programme de subventions du Fonds communautaire de l'Île, un programme pluriannuel de 27,5 millions de dollars.

Nous avons évalué si le programme de subventions, tel que modifié par le Ministère, était conforme à la politique du Conseil du Trésor et aux pratiques exemplaires, si le processus d'approbation des projets respectait les lignes directrices et les critères approuvés en la matière, et si des contrôles internes appropriés avaient été instaurés afin de s'assurer que les demandeurs dont les projets ont été retenus ont utilisé les fonds comme il se doit.

Chapitre 7 : Indicateurs de la condition financière

Nous fournissons de l'information sur un bon nombre d'indicateurs à partir des états financiers consolidés de la province. Pour l'exercice qui s'est terminé le 31 mars 2013, la province a enregistré un déficit de fonctionnement de 78,6 millions de dollars. La dette nette a augmenté de 131,5 millions de dollars pour atteindre plus de 2 milliards de dollars à la fin de l'exercice.

Chapitre 8 : Comptes publics

Chaque année, nous vérifions les états financiers consolidés de la province. Ce chapitre comprend une opinion de la vérificatrice ainsi que des commentaires, des observations et des recommandations découlant de notre travail. Sont aussi fournis des renseignements destinés à répondre à d'autres exigences de la *Audit Act* en matière de reddition de comptes.

Chapitre 9 : Compte de crédits et mandats spéciaux

Ce chapitre fournit de l'information sur le compte de crédits et les mandats spéciaux pour l'exercice qui s'est terminé le 31 mars 2013. Nous émettons une opinion en vue d'indiquer si l'argent a été dépensé aux fins pour lesquelles les sommes avaient été affectées.

Introduction

Chapitre 10 : Suivi des recommandations antérieures

À la suite de nos vérifications et examens spéciaux, des recommandations sont faites aux ministères et organismes. Chaque année, nous communiquons avec ces ministères et organismes afin de faire un suivi des mesures prises par rapport aux recommandations ayant découlé des vérifications précédentes. Un résumé des réponses obtenues est fourni dans ce chapitre.

Chapitre 11 : Comité des comptes publics

Le Comité des comptes publics révisé le rapport annuel du vérificateur général et joue un rôle important en rendant le gouvernement responsable de la gestion des ressources publiques. Des renseignements sur le comité et sur l'examen de notre rapport annuel sont fournis dans ce chapitre.

Chapitre 12 : Bureau du vérificateur général

Ce chapitre offre des renseignements sur le mandat et les responsabilités du vérificateur général. Des renseignements sont fournis sur les objectifs et les réalisations du Bureau ainsi que sur les ressources, le personnel et les affiliations professionnelles.

REMERCIEMENTS

Je suis heureuse de présenter mon premier rapport annuel depuis ma nomination au poste de vérificatrice générale en mars 2013. J'aimerais remercier l'équipe de professionnels dévoués du Bureau pour son appui. Le travail de vérification effectué, les recommandations énoncées pour l'amélioration de la gestion du secteur public et la préparation du présent rapport sont le résultat de leurs efforts. Leur dévouement et leur professionnalisme sont essentiels à la réalisation des travaux du Bureau et au succès durable de celui-ci.

Pour maximiser la contribution du Bureau à l'amélioration de la gestion des ressources publiques, la collaboration des ministres, des sous-ministres ainsi que des hauts dirigeants et du personnel des organismes, des conseils et des sociétés de la Couronne est essentielle. Je souhaite souligner la collaboration reçue dans le cadre des vérifications présentées dans le présent rapport annuel.

SPECIAL AUDITS AND EXAMINATIONS

1. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

AUDIT PROCESS

1.1 The Auditor General has a broad mandate for conducting special audits and examinations. Under the *Audit Act*, the Office may conduct any audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with applicable statutory provisions.

1.2 Special audits and examinations are objective assessments that assist in determining how well government is managing its activities and responsibilities. These audits assess the broader management issues affecting an organization or program and may examine issues of economy and efficiency, procedures to measure effectiveness, accountability relationships, and compliance with authorities. Sometimes referred to as value-for-money audits or performance audits, special audits and examinations are planned, performed, and reported in accordance with standards established by the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants).

1.3 There are three distinct phases in these types of audits. In the planning stage, audit staff obtain a thorough knowledge of the function, organization, or program selected for audit as well as the operational environment. This knowledge is obtained from a variety of sources and is used to develop an audit plan which sets out the audit objectives, criteria, scope, and timing.

1.4 Audit criteria are the standards against which performance is assessed. The criteria are determined by the auditor and are often based on regulations, policies, or other generally accepted sources. Management responsible for the subject matter under audit accepts the suitability of the audit criteria prior to commencement of the detailed audit work.

1.5 During the second, or implementation stage, the auditor gathers sufficient appropriate audit evidence through such procedures as performing tests, reviewing files, and interviewing key personnel. The audit evidence is then evaluated and analyzed. In this phase, performance

1. Introduction to Special Audits and Examinations

is assessed against established criteria and findings are identified. All findings or observations are discussed with management.

1.6 In the reporting phase, a draft audit report is developed which highlights significant issues and includes recommendations to address those issues. Senior management responsible for the audit subject matter is provided with a copy of the draft audit report for review and discussion. At the conclusion of the audit, a final report is issued to the department Crown corporation, or agency, and a written response is requested from management.

1.7 Due to the limited resources available to our Office and the complexity and magnitude of government operations, we cannot audit all government programs on an annual basis. In determining our audit work plan, we consider numerous factors including the financial magnitude of the entity or program, the results of previous audits, and the complexity of entity operations. In addition, we also consider the significance of potential issues that may be identified by an audit, and the impact of the subject matter on the public.

1.8 The recommendations provided in our audit reports are intended to address the issues identified. We do not, however, infringe on management's right to select the most appropriate course of action to deal with the issues identified.

2. INFORMATION TECHNOLOGY - GOVERNANCE AND IT CONTRACTING

MAIN POINTS

What we examined

Information Technology Shared Services (ITSS) provides information technology (IT) services to all government departments and the majority of Crown corporations and agencies. Almost 30 percent of the costs of IT services incurred by government in 2012-13 arose through contracts with external service providers. We looked to see whether a governance model was in place for providing IT services that was consistent with selected aspects of a recognized IT governance framework, and whether IT contracted services were managed in accordance with key aspects of applicable legislation, Treasury Board policies, and best practices.

Audit work for this report was substantially complete as of August 2013.

Why it's important

Information technology is critical to the ongoing operations of government. There are broad issues and risks in managing IT services and outsourcing arrangements. In recent years, contracted IT services have averaged approximately \$12 million per year through ITSS and Health PEI. In many cases, long-term relationships are developed with service providers and the associated risks must be identified and managed accordingly.

What we found

- The establishment of ITSS was a key step in coordinated IT service delivery for government. Significant issues related to governance have been plaguing ITSS since its inception in 2006. While progress has been made in some areas, for example in government's appointment of a full time chief operations officer in 2012, additional effort is required to develop a government-wide governance structure for IT and a government-wide IT strategic plan.

- Although roles and responsibilities were clearly assigned for contract management, we noted problems including inadequate monitoring of contract expiry dates, contracts awarded without a competitive process, and lack of documented risk assessments.
- There was no effective system to identify and manage conflict of interest situations in IT contracting, and conflict of interest provisions including disclosure requirements were not included as standard wording within IT contracts.

BACKGROUND

2.1 Information technology is a critical enabler that supports the delivery of programs and systems across all government service sectors including health, education, social services, and finance. The Prince Edward Island government uses a centralized approach to information technology service delivery through the section, Information Technology Shared Services (ITSS) which was established in 2006. The ITSS section is within the Department of Finance, Energy and Municipal Affairs and is responsible for supporting information technology throughout all government departments and the majority of government Crown corporations and agencies. It consists of approximately 200 employees within five main divisions. Each division reports through a director to the Chief Operating Officer of ITSS.

2.2 Services delivered through ITSS cover a broad scope of IT service responsibilities including network management and infrastructure support, development of new systems and upgrade of existing systems, hosting and supporting numerous business applications, and providing help desk support for thousands of users. Health PEI, in conjunction with ITSS, is responsible for the planning, development, and implementation of the Clinical Information System (CIS) which is the IT system connecting all hospitals and a number of family health centres across the Island.

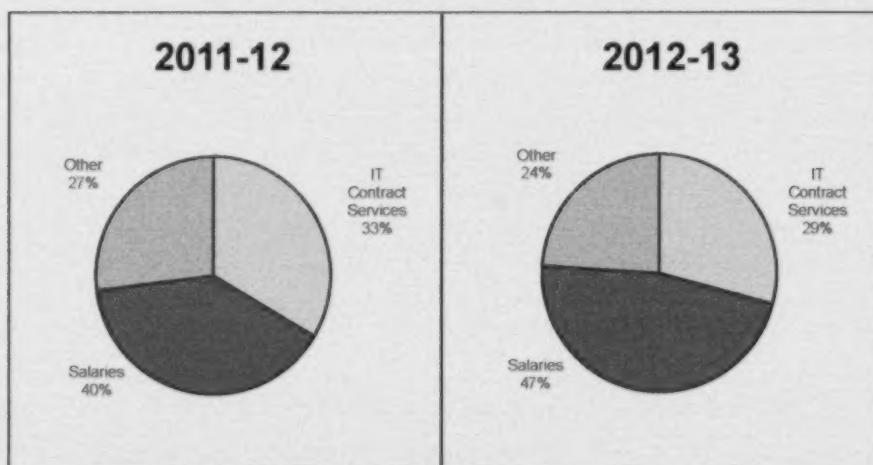
2.3 In recent years, information technology expenditures including operational and capital, have averaged \$36 million per year. Services are provided through a combination of internal staff operations and services acquired under contract with external service providers. Contracted services are used not only to implement, but also to maintain

2. Information Technology - Governance and IT Contracting

government's core systems, most of which are critical to the administration and delivery of government services.

2.4 Exhibit 2.1 shows total IT expenditures, including capitalized costs, incurred by both ITSS and Health PEI for 2011-12 and 2012-13. Payments to external service providers amounted to \$12.8 and \$9.3 million respectively.

**EXHIBIT 2.1
IT EXPENDITURES
ITSS AND HEALTH PEI
YEAR ENDED MARCH 31**



Source: Public Accounts and Health PEI Expenditure Reports

OBJECTIVE AND SCOPE

2.5 The objectives of our audit were to determine whether

- a governance model was in place for providing IT services that was consistent with selected aspects of a recognized IT governance framework; and
- IT contracted services were managed in accordance with key aspects of applicable legislation, Treasury Board policies, and best practices for IT contract management.

2.6 The standards against which we assessed performance were drawn from numerous sources: Treasury Board policy for professional services

2. Information Technology - Governance and IT Contracting

contracts, pertinent legislation, as well as identified best practices such as selected aspects of the Control and Objectives for Information and related Technology (COBIT) and the Information Technology Infrastructure Library (ITIL). These standards or criteria were reviewed with senior management prior to the commencement of the audit. Senior management accepted the relevance and suitability of the audit criteria.

2.7 We examined the processes and frameworks related to IT governance and IT contract management. We looked for the existence of an IT strategic plan. Our audit focused on governance and contracting practices during the fiscal year ended March 31, 2013. For examination of contract management, we selected a sample of contracts that were in place during our scope period. Most of these contracts related to ongoing applications and had been renewed over an extended period of time. The total value of the contracts in our sample was approximately 25 percent of the average annual expenditure for ITSS and Health PEI contracts. Our audit focused on contract management, and we did not audit the performance of the contractors.

2.8 In addition to a detailed examination of contracts, our audit approach included

- review of policies and applicable legislation;
- interviews with IT management at ITSS and Health PEI as well as senior management of the Department of Finance, Energy and Municipal Affairs;
- review of a consultant's study on the organization and operations of ITSS;
- testing of contract payments; and
- consultation with an IT audit specialist.

2.9 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants) and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

GOVERNANCE

2.10 An effective framework for IT governance is essential to the successful delivery and control of IT operations. Based on best practices, we expected an IT governance framework would be in place to outline responsibility and accountability for information technology at a strategic level. Such a framework typically involves the establishment of a committee structure to guide decision making in relation to IT strategic priorities and objectives and includes

- ensuring ongoing alignment of an IT strategy with the business objectives of government;
- ensuring IT risk is managed at the appropriate level; and
- reviewing and assessing major IT investment needs.

2.11 ITSS was established in 2006 with several IT groups restructured to form an IT shared services delivery model. In 2008, changes to Treasury Board policy were drafted to reflect a revised governance structure for overall planning and management of information technology, but these changes were never formally adopted and included in Treasury Board policy. In 2009, the province undertook a comprehensive operational and organizational review of ITSS which resulted in recommendations related to an IT governance framework. The review recommended the establishment of a high level IT steering committee that would assist in weighing and prioritizing the multitude of requests for IT systems and improvements across all government departments and agencies. At the time of our audit, we were advised that an IT steering committee for government had not met in over two years.

2.12 Responsibilities for management and direction of IT resources are often included in the mandate of a Chief Information Officer (CIO). Responsibility would include high level government-wide direction and control of IT. The CIO role normally includes monitoring the alignment of IT development with the plans and strategies of government, management of IT risks, as well as providing oversight for the development of an integrated IT architecture.

2.13 We noted that a CIO was appointed in 2011 but this appointment was rescinded in 2012. At the time of our audit, it was not clear whether

executive level responsibility for IT had been assigned. We looked to see whether the responsibilities of the CIO position were assumed through another position in government. We noted that in 2012, after the CIO appointment was rescinded, deputy level responsibility for the operations of ITSS within the Department of Finance, Energy and Municipal Affairs was assigned to the Secretary to Treasury Board. However, it is not clear whether this assignment of responsibility includes the responsibility to act as chief information officer for all of government.

Recommendations

2.14 Government should establish an IT oversight committee to guide decision making in relation to IT strategic priorities for government.

2.15 The role and responsibilities for government-wide IT management and direction should be clearly assigned.

Scope of Responsibility of ITSS

2.16 We expected the scope of responsibility of ITSS to be documented to ensure that the IT governance structure, roles, and responsibilities are well defined. In order to realize the full benefit of an IT shared services model, management and decision making authority must be clearly understood.

2.17 We noted that the responsibility for IT support, operations, and systems delivery had been transferred to ITSS in 2006 by Executive Council. The order in council lists several departments and agencies of government and makes a general statement that various other departments and agencies are also included but these are not named. We found that in practice some agencies of government were not being serviced by ITSS, but it was not clear whether Executive Council intended them to be.

2.18 For departments and agencies where it is clear that ITSS is responsible for IT service delivery, we expected the scope of those services to be defined. A clear definition of IT roles and responsibilities for both ITSS and client departments and agencies is necessary to ensure consistency in treatment, that government's interests are protected, and that economies and efficiencies available through the shared services model are realized.

2.19 We found that agreements with service level objectives indicating the extent of IT services each department and agency should expect from ITSS have not been documented.

Recommendations

2.20 ITSS management should obtain clarification on its scope of responsibility for the various government departments, Crown corporations, and agencies.

2.21 ITSS management should ensure service level objectives are documented to clearly outline IT roles and responsibilities of both ITSS and client departments and agencies.

STRATEGIC PLANNING

2.22 We expected government to have a documented IT strategic plan that would align IT plans with current and future business needs of government departments and agencies. A government-wide strategic plan for IT would include an assessment of current capacity, an identification of IT priorities across government and include development of tactical plans for addressing these priorities in a systematic manner.

2.23 A strategic plan outlining government's direction and priorities for IT had not been prepared. We were advised that after critical system maintenance was addressed, ITSS allocated resources for system upgrades and system changes by trying to provide some resources to each department. This approach may not be consistent with an allocation of resources based on a risk assessment or on an assessment of government's IT priority needs flowing from its business strategy. We were advised that decisions to replace and upgrade major systems that were at risk of being de-supported were addressed and presented to Treasury Board for approval. In addition, government has a five year capital plan which outlines funding requirements for all capital investments including information technology investments. However, capital funding for IT requirements is only one component of an IT strategic plan. An IT strategic plan would also identify the factors considered in arriving at approved capital and operational funding as well as the goals and priorities for the future. It was not evident from documents examined during our audit whether government has a vision for the future of IT development. There was no structure in place for proactive IT strategic planning and identification of priorities and future directions across government.

2.24 Health PEI, the largest Crown corporation, has a significant IT investment and ongoing IT needs. It has developed an IT strategic plan that documents a road map for IT management and future IT investment plans for the health sector. Health PEI is, however, only one Crown corporation under government's responsibility. The Health PEI IT strategic plan should be used as one input to the development of a government-wide IT strategic plan.

Recommendation

2.25 Government should take action to ensure an IT strategic plan is developed which outlines government-wide strategic direction and priorities.

CONTRACT MANAGEMENT

2.26 Since April 1, 2009, contracted IT services have averaged 33 percent of the overall expenditures for IT services through ITSS and Health PEI. In this regard, processes and controls surrounding contract management are vital to ensure government is receiving value for money within these IT service contracts. Weaknesses in contract management can result in errors and omissions within the contract as well as inadequate planning and monitoring of services and evaluation of performance against the contract. Deficiencies can lead to increased liabilities, costs, and unnecessary risks to government programs, departments, and assets. Contract management best practices should be applied to the portfolio of contracts using a risk-based approach. Management should identify significant contracts considering such factors as financial magnitude of the contract, criticality of the underlying application, and complexity of the services provided.

Guidance for Contract Management

2.27 We expected ITSS to have a process framework to guide staff in managing IT services. We were expecting documented guidelines that would outline the expectations for ITSS staff for managing contracts with external service providers. These guidelines would act as both a resource for staff as well as a resource for management to hold staff accountable.

2.28 There are Treasury Board policies which address general contract requirements and approval processes. These policies apply to ITSS but beyond these policies there is no documented process framework for contract management in ITSS.

2.29 We were advised by management that for new system development and other project work, certain aspects of industry recognized project management procedures are followed. However, the aspects of best practices that have been adopted by ITSS are not clearly identified.

2.30 ITSS has a draft policy, *Government Information Security Policy Standards and Directives*, developed in 2008. This policy is comprehensive in terms of requirements related to security over applications, hardware, information management, service provider security requirements, and human resources. Many aspects of this policy impact on the management and delivery of contract services, however, at the time of our audit the policy was still in draft. We were advised that certain aspects of this policy have been implemented, however, it was not clear which aspects of this draft policy staff were expected to follow.

Recommendation

2.31 ITSS management should establish an IT process and control framework to guide staff in providing IT contract management services.

Contract Management Plans

2.32 We expected a contract management plan for each significant contract. A typical contract management plan includes

- risk assessment and risk management strategy;
- transitional arrangements;
- systems and processes to ensure compliance with terms and conditions;
- roles and responsibilities (internal and vendor);
- reporting requirements and oversight arrangements;
- escalation procedures and periodic review points; and
- details on how the project will be monitored against objectives or key performance indicators.

2.33 For six contracts in our sample we expected to find a documented contract management plan. Four of the contracts did not have a documented contract management plan. For all six contracts, we looked to see whether certain key elements of a management plan were addressed. We noted that the roles and responsibilities for contract management were assigned for each contract including identification of the owner from within the department or agency, identification of the contract manager within ITSS, and responsibilities of the vendor. However, certain other key considerations were not adequately addressed as discussed in the following paragraphs.

2.34 In four of the six contracts, there was no documented risk assessment. Without a documented risk assessment, management and staff may not be aware of all the potential risks as well as methods to mitigate such risks. This exposes government to potential additional costs and liabilities. Best practices indicate that risk assessments should be developed at the outset of the contract and revisited at major project milestones as well as when there is a significant change to the project.

2.35 There were two of the six contracts where, due to the nature of the contract, we expected to see regular reporting to senior management for vendor performance. In one of these, there was no regular reporting to senior management and we were advised that senior management received information on an exception basis only. This contract covered application support for a critical government-wide system and included expenditures of \$925,000 for 2012-13. In addition, this vendor operated for 11 months of the year under audit without a documented contract. In a situation such as this, where there is increased risk to government, it is even more important that ongoing performance of the vendor is monitored and there is regular reporting to senior management.

Recommendation

2.36 ITSS management should ensure an appropriate IT contract management plan is developed and documented for each significant contract.

Contract Expiry Dates

2.37 Application support and maintenance is an ongoing need as long as the particular application continues to be used in the delivery of government programs and services. Where application support is acquired through a contractual arrangement with an external service provider, we expected contract expiry dates to be monitored to ensure service was not interrupted and adequate lead time was available to prepare for the awarding of future contracts.

2.38 Our work demonstrated that expiry dates of contracts were not monitored. Action was not taken to ensure that valid contracts were in place to provide critical application support on an ongoing basis. Of the seven contracted service arrangements we examined, there were five where the contract was not executed on a timely basis. In these cases, the previous contract expired and application support was provided by the vendor without a signed contract for a period of time ranging from several months to one year. In one of the five cases, authorization was provided by Treasury Board to negotiate a contract, but no contract was in place for 11 months while the contractor continued to provide service.

Recommendation

2.39 ITSS management should monitor expiration of ongoing contracted arrangements and ensure signed contracts are in place for all services obtained.

CONTRACT AWARDS

2.40 Treasury Board policy requires some form of competitive process depending on the circumstances of the contracted arrangements. A competitive process can be accomplished either by public invitation or by invitation to qualified bidders. A fair and transparent procurement process is government policy and is consistent with the province's responsibilities under the Atlantic Procurement Agreement (APA) which applies to contracts for services over \$50,000 as well as the Agreement on Internal Trade (AIT) which applies to contracts for services over \$100,000. Both the policy and these trade agreements allow for selection without competition in certain specific circumstances.

2.41 During our audit, we examined the procurement procedures for each of the contracts in our sample. In six of the contracts we examined, the contracts were based on an ongoing relationship with the vendor. Therefore, we examined the renewal for each contract. We expected to

find that the contracts in effect during our audit scope period had been procured to obtain the best quality services at the most economical cost in a transparent manner so that qualified vendors had an equal chance of bidding on the contracts. For four contracts which were renewed without a competitive process, we provide information in the following paragraphs.

2.42 In two contracts, each valued at \$75,000, ITSS cited a sole source exemption under the APA. The exemption related to exclusive rights and licenses, and we did not find evidence that this exemption applied. The vendor held no exclusive licenses, rights, copyrights or patents related to the applications referred to in the contract, and the government systems in question did not have to be maintained by this specific vendor.

2.43 A contract with expenditures of \$925,000 in 2012-13 was awarded without a competitive process. In this case, the previous contract was due to expire and Procurement services indicated sole sourcing could be justified under AIT for a defined period based on dependence on the service provider, the critical nature of the application, and the limited time available. A contract was negotiated with the same service provider as the previous six-year contract. If contract expiry dates had been adequately monitored, sufficient time should have been available to undertake a competitive process prior to expiration of the previous contract.

2.44 For the fourth contract, approved for a maximum of \$329,000 per year, the AIT is applicable. The contract was essentially for employment services and the individuals named in the vendor contract had been contracted through the same vendor over a seven year period to provide services to ITSS and performed duties at the direction of ITSS management. We were advised that when the contract was initiated in 2004, the knowledge and skills of the individuals were unique. Over time, ITSS had acquired employees with those same qualifications. This situation is not uncommon in the industry, where a specialized skill set is initially acquired under contract and develops into a long-term relationship. In this situation, we also expected management to have conducted a cost-benefit analysis on hiring these skills directly versus continuing to contract for these IT services. We were advised that such an analysis had not been prepared. Based on our analysis, approximately \$200,000 could have been saved for the two year period 2011-12 and

2012-13 if ITSS had hired staff rather than obtained services under contract.

Recommendations

2.45 Except where sole sourcing is warranted, IT contracts should be awarded through a competitive process.

2.46 ITSS management should conduct a cost-benefit analysis on continuing to contract for IT services versus hiring employees to meet ongoing IT service requirements.

TERMS AND CONDITIONS OF CONTRACTUAL ARRANGEMENTS

2.47 Treasury Board policy outlines the terms that are required to be included in a professional services contract. The purpose of the contract is to document the work to be performed, the compensation to be paid as well as further elements that outline the roles and responsibilities of each party to the contract. The policy indicates the standard clauses that would normally be required in any professional services contract. We expected contracts for IT services to meet the requirements of Treasury Board policy.

2.48 We examined each contract in our sample to determine whether it included the standard terms as required under Treasury Board policy. We found that these contracts included the required contract clauses.

Service Level Agreements

2.49 Certain contractual arrangements also require a service level agreement (SLA). A service level agreement is designed to define, for both the vendor and government, the extent and limitations of the services to be provided. Best practice requires that service level agreements be documented when the vendor provides maintenance of a system and takes on some of the operating risks, for example through processing or hosting aspects of the application.

2.50 Based on the nature of the contracted arrangements in our sample, there was one contract where we expected a service level agreement to be signed. In this case, the vendor is responsible for the physical storage, maintenance, and monitoring of a major data storage and critical processing system for government. In situations like this, when the reliance on the vendor for a critical system is high, a comprehensive SLA is important to mitigate risk to government. We found a number of issues with this SLA.

2.51 It is standard in an SLA to document the minimal functionality for the system. For example, if a payroll system is operating but the system cannot generate pay for term employees, minimal functionality details in the SLA would dictate whether this limitation is acceptable or not. We found that the SLA in our sample did not include details for minimal functionality, therefore limiting the vendor's responsibilities and risk regarding system performance.

2.52 Another standard inclusion in an IT SLA is details on reliability which relates to the system being available to end users and staff. Users needs for processing and information vary at certain times and these target levels should be detailed so that both the vendor and client know what is expected. We expected the SLA to detail when the system would be available and the maximum consecutive as well as overall downtime that is acceptable to government. Since these key factors are not detailed in the SLA, a substantial amount of risk remains with government.

2.53 Service reporting and reviewing requirements are typically included in an SLA including details of when, what, and how often service reports are to be provided and who is responsible for generating and reviewing these reports. We noted that certain measurable targets that we expected were not detailed within the SLA, therefore performance against these targets was not analyzed by government at the reporting and reviewing stages. We also noted that meetings with the vendor dealt with new work projects or issues and did not address review of vendor performance regarding the maintenance of the system.

2.54 In this contract, the vendor is providing change management, hosting, and monitoring of the database. These actions affect the outputs of the system and ultimately can impact financial and other data. It is typical for SLAs of this nature to require a report on the adequacy of internal controls of the service provider. If an audit report to that effect is not available, then at a minimum the system owner (in this case government) should have the right to audit the controls.

2.55 We noted that the SLA included the right for government or its representative to review records supporting the billings. However, the SLA does not include a clause giving government the right to audit the process controls of the service provider or for a third party to provide assurance to government that these controls are adequate.

Recommendation

2.56 ITSS management should ensure that service level agreements with vendors address key risk factors as outlined in industry best practices.

**CONTRACT
PAYMENTS**

2.57 The *Financial Administration Act* (FAA) outlines important payment controls. The Act requires that the Minister or a person authorized in writing by the Minister certifies that services were rendered prior to payment.

2.58 For each of the contracts in our sample, we examined all payments during 2012-13. We expected payments to be appropriately authorized. In addition, we looked for the invoices to be approved by the contract manager. The designated contract manager is the individual who is involved in the day-to-day dealings with the vendor and has current knowledge of the work completed. If the payment is authorized without evidence of contract manager approval, then it is difficult to ascertain that the work was adequate and complete.

2.59 We found all payments were authorized by someone with delegated signing authority. However, in four of the seven sampled contracts, some or all of the invoices had not been approved by the contract manager.

2.60 In two of the seven contracts we examined, payments for the 2012-13 fiscal year exceeded agreed contracted amounts by an aggregate of \$62,000. In one case, a \$47,000 payment was authorized in error. This amount has subsequently been recovered. The other payment was due to additional work being billed exceeding the contract amount without an amendment to the contract.

2.61 In three of the seven contracts examined, payments were made before required progress reports were reviewed. The contract stated that progress reports were to be submitted and reviewed at regular intervals. We found that ITSS was not always obtaining the required reports before processing payments under the contract.

Recommendation

2.62 ITSS management should ensure invoices are approved by the contract manager who has been delegated direct oversight for the contracted IT services.

**CONFLICT OF
INTEREST**

2.63 Treasury Board policy on contract services does not address conflict of interest situations in contracting. Regardless of the fact that Treasury Board policy is silent, we would expect that ITSS would have a process to identify and manage conflict of interest situations in IT contracting.

2.64 We found there was no effective system to identify and manage conflict of interest situations in IT contracting. Standard contract provisions addressing conflict of interest situations and disclosure requirements were not incorporated into IT contracts.

2.65 An Information Technology Architect (ITA) is a key role within ITSS and each department has been assigned an ITA. The ITA role includes facilitating the acquisition of IT services and managing the planning, delivery, and performance of new and existing IT services for the department to which he or she is assigned. At the time of our audit, all ITAs were employees of government except one. We noted government had contracted with a service provider to obtain ITA services for one department and also entered into contracts with the same service provider for application support within that same department. In his role as ITA, the service provider oversaw the work of his company's contracted employees and also advised department management on IT service needs. Therefore, government has created what appears to be a conflict of interest. In addition, both the ITA contract, as well as the contract for support services in this department were not competitively bid. These contracts have been in place for a number of years and were renewed annually.

2.66 In addition to these contracts, we noted this department paid \$22,000 to the same contractor for other IT services. There was no documented contract for this additional work.

Recommendations

2.67 Treasury Board policy for professional services contracts should be revised to address conflict of interest situations including disclosure requirements.

2.68 ITSS management should develop and implement a process to identify, document, and manage conflict of interest situations when contracting IT services.

MANAGEMENT RESPONSE

2.69 Our report was discussed with senior management of the Department of Finance, Energy and Municipal Affairs, and a written response to our report has been requested.

3. DIABETES - STRATEGY AND ORGANIZATION OF CARE

MAIN POINTS

What we examined

Diabetes is a chronic condition that occurs when the body cannot sufficiently produce or properly use insulin. Diabetes is a lifelong disease that has serious health complications. These health complications impact the quality of life for Islanders with diabetes and create a significant financial burden on the province's healthcare system.

We looked to see whether the Department of Health and Wellness or Health PEI had a strategy to help prevent diabetes related health complications and whether Health PEI had organized its healthcare services in a manner that reflects best practice for diabetes care.

Audit work for this report was substantially complete as of January 2014.

Why it's important

The incidence and prevalence of diabetes is on the rise in Canada and in PEI. The province's Chief Public Health Office reported that in 2009 the number of people in PEI living with diabetes was almost 11,000, which represented a 77 percent increase over a ten year period. The Canadian Diabetes Association has estimated that this statistic will increase to 18,000 in 2020 given the Island's aging population, declining mortality rates, and the increased prevalence of associated risk factors such as obesity.

In the spring of 2013, the province's MLAs unanimously passed a motion in the Legislative Assembly recognizing the need for a long-term action plan to deal with the rising incidence of diabetes in PEI.

What we found

- Health PEI had taken steps to set direction for diabetes care; however, a strategy had not been completed.

3. Diabetes - Strategy and Organization of Care

- Although action had been taken, Health PEI had not fully implemented the collaborative, team-based approach which is recommended for diabetes care.

BACKGROUND

3.1 The World Health Organization (WHO) defines chronic diseases as those of “long duration and slow progression.” The WHO reports that chronic diseases such as cardiovascular diseases, diabetes, cancers, and chronic respiratory diseases are the leading cause of mortality in the world.

3.2 Diabetes is a chronic disease that occurs when the body is unable to produce enough insulin or cannot effectively use the insulin it produces. Insulin is a hormone that controls the amount of glucose in a person’s blood. Typically our bodies convert the food we eat into glucose, which provides energy. There are three main types of diabetes: type 1, type 2, and gestational.

3.3 Type 1 diabetes occurs when the pancreas is unable to produce insulin and is usually diagnosed in children and adolescents. Because the body is unable to produce insulin, insulin therapy is required for the treatment of type 1 diabetes. Typically, five to ten percent of a diabetes population has type 1 diabetes. Type 2 diabetes occurs when the pancreas does not produce enough insulin or when the body does not effectively use the insulin that is produced. Type 2 diabetes is commonly seen in adults 40 years of age and older. There are well established risk factors for developing type 2 diabetes some of which are modifiable (levels of physical activity and healthy eating), while others are not (ethnic background, genetics, and age). Gestational diabetes is a temporary condition that occurs during pregnancy. It affects approximately two to four percent of all pregnancies and involves an increased risk of developing diabetes for both mother and child.

3.4 In addition to these types of diabetes, prediabetes is a condition that describes a person whose blood glucose levels are higher than normal, but not yet high enough to be diagnosed as type 2 diabetes. The Canadian Diabetes Association (CDA) reports that although not everyone with prediabetes will develop type 2 diabetes, many will.

3. Diabetes - Strategy and Organization of Care

3.5 When left unmanaged, diabetes can lead to serious health complications. Major complications have been highlighted in **Exhibit 3.1**.

EXHIBIT 3.1 **MAJOR COMPLICATIONS OF DIABETES**

Complication	Impact
Cardiovascular Disease	The majority (65 to 80 percent) of people with diabetes will die from heart disease.
Chronic Kidney Disease	Fifty percent of people with diabetes have chronic kidney disease, and chronic kidney disease associated with diabetes is the leading cause of kidney failure in Canada.
Diabetic Retinopathy	The most common cause of new cases of legal blindness in people of working age.
Neuropathy (damage to the nervous system)	In severe cases, most often involving the feet and lower limbs, neuropathy may lead to infections that require amputation.

Source: Canadian Diabetes Association

3.6 These complications contribute to reduced quality of life, work limitations, and increased risk of death. They also greatly increase the demand for healthcare resources. There are proven mechanisms to manage the disease to avoid costly complications. Appropriate management of the disease centres around proper self-management, blood glucose monitoring, and screening for select complications. Research shows that when people with diabetes get better quality care, they are less likely to have serious complications.

Diabetes in PEI

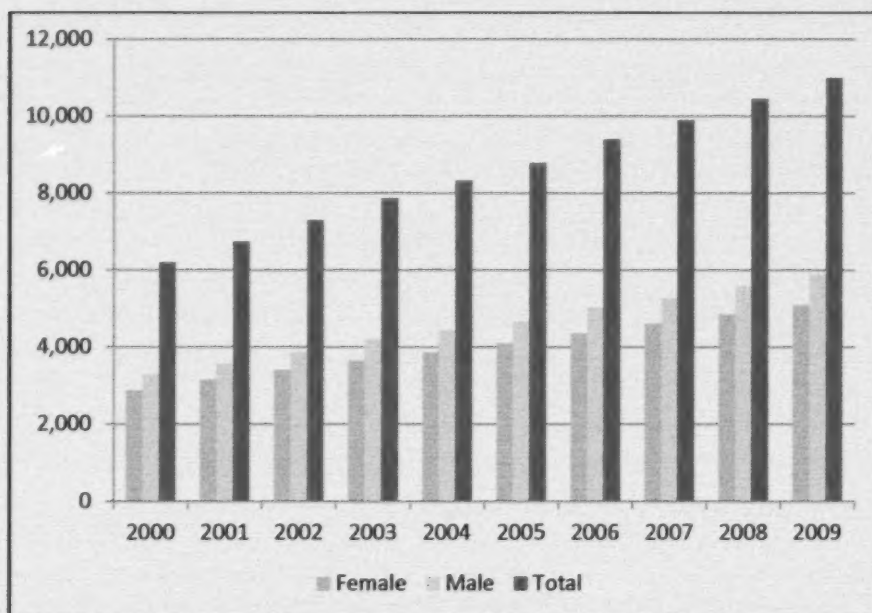
3.7 Like other provinces and territories in Canada, PEI has seen a significant increase in both the percentage of its population (prevalence) and the number of people (incidence) diagnosed with diabetes. The primary drivers of these increases are an aging population and rising obesity rates, two key risk factors for developing type 2 diabetes. We have drawn on data from many sources including the Public Health Agency of Canada, the province's Chief Public Health Office, and the Canadian Diabetes Association. It should be noted that in many cases, the most recent available data is five years old as of the date of this audit report.

3. Diabetes - Strategy and Organization of Care

3.8 The Public Health Agency of Canada (PHAC) is responsible for Public Health at the national level. As part of its mandate, it maintains the Chronic Disease Surveillance System, formerly the National Diabetes Surveillance System. In PEI, the Chief Public Health Office compiles and reports this data to PHAC.

3.9 The Chief Public Health Office's most recent diabetes publication, *Prince Edward Island Diabetes Trends 2000-2009*, highlights some serious facts about the incidence, prevalence, and impacts of the disease in PEI. **Exhibit 3.2** shows the number of Islanders living with diabetes increased from 6,200 in 2000 to almost 11,000 in 2009, representing a 77 percent increase over the ten year period.

EXHIBIT 3.2
ACTUAL NUMBER OF DIABETES CASES
FOR INDIVIDUALS AGED ONE YEAR AND OLDER
2000-2009



Source: PEI Chief Public Health Office: *Prince Edward Island Diabetes Trends 2000-2009* (2013)

3. Diabetes - Strategy and Organization of Care

3.10 Other important statistics reported by the province's Chief Public Health Office include

- Fifty percent of all Islanders with diabetes were of working age (between 25 and 65 years of age).
- Adults aged 20 years and over were hospitalized more often than those without diabetes, including 13 times more often for lower limb amputations and more than four times more often for heart failure.
- Death rates for adult Islanders with diabetes have been about twice as high as adults without diabetes.
- In 2009, Islanders with diabetes had hospital stays almost three and a half times longer than Islanders hospitalized without diabetes.

3.11 The Canadian Diabetes Association echoes these trends, and further, it estimates that in 2010 approximately 25 percent of PEI's population had prediabetes, ranking PEI among the provinces with the highest estimated rates of this condition.

3.12 CDA has created the Canadian Diabetes Cost Model, a tool it claims provides the first comprehensive picture of the economic impact of diabetes in Canada. CDA has reported from this cost model data on a national perspective in its 2009 report, *An Economic Tsunami: The Cost of Diabetes in Canada*. Since the release of that report, CDA has reported on the cost of diabetes in each Canadian province. CDA estimated the economic burden of diabetes in Prince Edward Island at \$60 million in 2010 and it is projected to increase to \$81 million in 2020.

3.13 CDA explains that its cost assumptions consider both the direct and indirect costs of the illness as follows:

- Direct costs include all costs for which payment was made and resources were used in the treatment, care and rehabilitation of an illness or injury. These costs include hospital and institutional care, primary (general and specialist) care, and medication.
- Indirect costs include the value of economic output lost due to illness, injury-related work disability, or premature death.

3. Diabetes - Strategy and Organization of Care

3.14 Effective management of diabetes helps to avoid future healthcare costs. CDA's Diabetes Cost Model indicates that 80 percent of all diabetes costs come from the complications associated with the disease, and not the treatment of the disease itself. Further, it estimates that regular screening for complications and early treatment can reduce or delay the complications of diabetes by as much as 50 percent. The Canadian Diabetes Association publishes clinical practice guidelines for management and screening which are widely adopted as best practices.

Primary Care Renewal

3.15 Primary care refers to a patient's first point of contact with their healthcare system. Typically, this would include family physician offices, walk-in clinics, and family health centres. Primary care renewal is a general term characterized by a change in the way primary care is provided. Historically, primary care has been provided mainly by family physicians with a focus on diagnosis and treatment. Primary care renewal focuses on moving towards a healthcare team-based approach. Such teams are well positioned to focus on health promotion and improving the management of chronic diseases. Current research shows that this model of healthcare provides better health outcomes for patients and reduces reliance on hospitals and emergency rooms.

3.16 Health PEI (HPEI) has recognized this shift and has taken action in recent years to reorganize its primary care model through its Primary Health Care Renewal Initiative. This initiative has two key components relevant to this audit: the introduction of five primary care networks and the integrated chronic disease prevention and management initiative.

3. Diabetes - Strategy and Organization of Care

Primary Care Networks

3.17 HPEI has established five primary care networks across the province as a means to increase Islanders' access to primary care. Each of these networks serves a geographic area that includes multiple health centres and medical clinics. A team of healthcare professionals including family physicians, nurse practitioners, nurses, diabetes educators, and administrative staff provides the core health services while other providers such as community dietitians, social workers, and mental health therapists may also be available. The five primary care networks are

- West Prince;
- East Prince;
- Queens West;
- Queens East; and
- Kings.

3.18 All five networks were created with the intention of ensuring that all Islanders have equal access to primary healthcare and are within 30 kilometers of a primary care site. The networks focus on diagnosis and treatment, health promotion, illness prevention, and chronic disease management.

Integrated Chronic Disease Prevention and Management

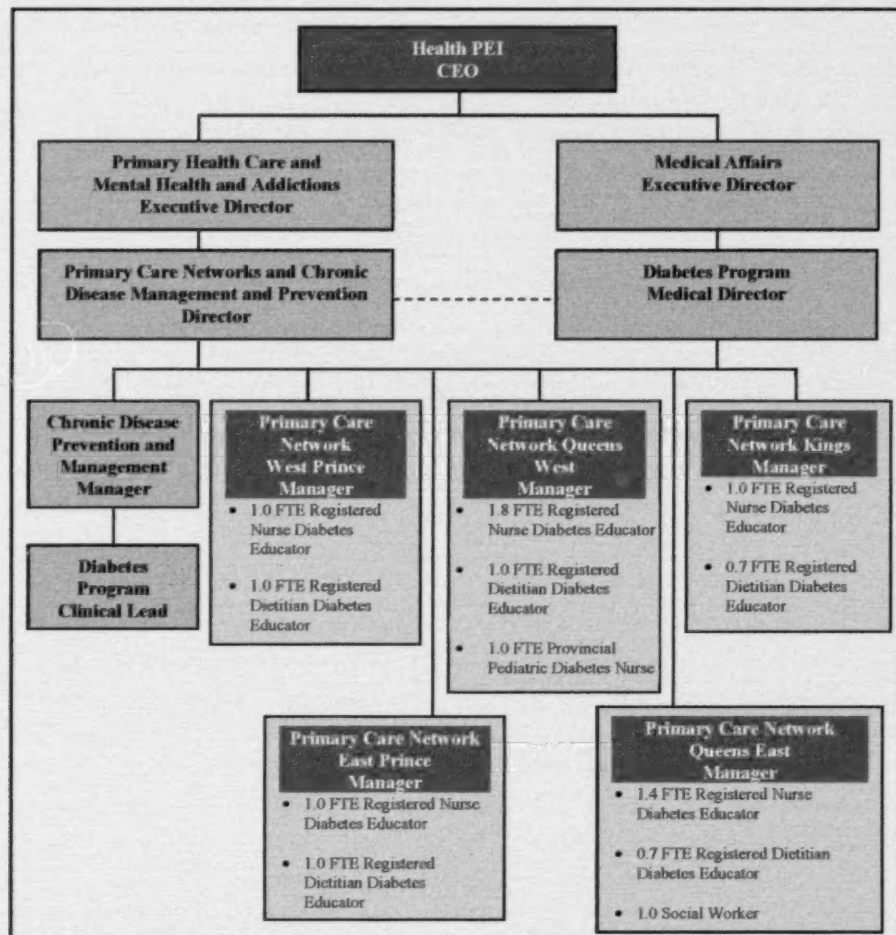
3.19 This initiative focuses on promoting good health, preventing chronic disease, and managing chronic illness to achieve positive health outcomes. It culminated in HPEI's recently published policy framework entitled *Stemming the Tide: Preventing and Managing Chronic Disease in Prince Edward Island*. The framework serves as an overarching approach to guide chronic disease care in PEI.

Diabetes Program

3.20 The Diabetes Program in PEI used to be a provincial program operating as part of the Department of Health and Wellness. As part of the Primary Healthcare Renewal Initiative, the diabetes education staff were dispersed across the five primary care networks. Consequently, each certified diabetes educator (registered nurse or dietitian) reports to the manager of his or her respective network. The Program is also supported by a Medical Director, a physician responsible for education and clinical direction and by a clinical lead, a registered nurse responsible to ensure consistent clinical diabetes care across the five primary care networks. **Exhibit 3.3** provides an organization chart for the Diabetes Program.

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EXHIBIT 3.3 ORGANIZATION CHART DIABETES PROGRAM AS OF JULY 31, 2013



Adapted from HPEI Organization Chart

3.21 The Diabetes Program provides education and self-management support to Islanders living with diabetes. These services can be accessed through visits to the diabetes education sites within the five primary care networks and through collaborative physician office visits offered in some areas of the province. In addition to these services, some educators also work with specialty populations such as children, pregnant women, and patients on insulin pump therapy. At July 31, 2013, there were approximately 3,400 active clients of the Diabetes Program.

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3.22 Certain staff of the Diabetes Program are also part of the Diabetes Clinical Resource Team which is responsible to establish, disseminate, and ensure the adoption of clinical program standards in diabetes services across PEI. This translates into educating other healthcare staff, such as hospital and long-term care healthcare providers, about best practices in diabetes care.

OBJECTIVE AND SCOPE

3.23 The objectives of this audit were to determine whether

- the Department of Health and Wellness or Health PEI had a comprehensive strategy to prevent diabetes related health complications; and
- Health PEI had organized its diabetes care in accordance with evidence-based standards of diabetes care.

3.24 The standards against which we measured HPEI's performance came from the Canadian Diabetes Associations 2008 Clinical Practice Guidelines. These standards, or criteria, were communicated to senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit.

3.25 The scope of our audit covered the 16 month period from April 1, 2012 to July 31, 2013. Our audit approach included

- interviews with HPEI staff, Diabetes Program staff, and the Program's Medical Director;
- interviews with three physicians, the PEI Chapter of the College of Family Physicians, and several staff from the Department of Health and Wellness, including staff from the Chief Public Health Office;
- an analysis of the various strategies and frameworks that existed in other provinces;
- an electronic survey of the Island's family physicians;
- a review of a sample of patient files from the Diabetes Program; and
- literature review.

3. Diabetes - Strategy and Organization of Care

3.26 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money established by the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants) and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

STRATEGY

3.27 Provinces across Canada have recognized the need for concentrated efforts in chronic disease prevention and management. As a result, many provinces have developed strategies or policy frameworks as a means to address this serious issue. Some provinces have developed strategies specific to diabetes, while others address chronic diseases in general.

3.28 We examined various strategies and plans that existed in six other provinces. Two provinces in particular had comprehensive strategic plans for diabetes care: Ontario and New Brunswick.

3.29 Based on our analysis of other provinces' plans, we noted several common themes which included

- **Three levels of prevention** - All of these provinces had given consideration to three levels of prevention. They addressed primary prevention (directed to the population at large), secondary prevention (targeted to high risk individuals), and tertiary prevention (management of the disease to avoid complications).
- **Performance indicators and outcome measures** - Some provinces had specific measurable performance indicators identified for its diabetes plan. Others had recognized the need to develop such indicators. Typically, these indicators tended to be clinical in nature and focused on the percentage of patients
 - receiving blood glucose tests (or whose results fell within a certain range);
 - receiving recommended foot assessments;
 - receiving recommended retinal exams; and
 - receiving recommended cholesterol exams.

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- **References to increasing the adoption of clinical practice guidelines** - Provinces had recognized the importance of educating other healthcare providers (family physicians, primary care nurses, hospital staff) about appropriate diabetes care as outlined in the Canadian Diabetes Association's clinical practice guidelines.
- **References to other topics including**
 - supporting the creation of a diabetes registry;
 - identifying the need for additional support in the primary care setting (physician offices);
 - better access to medications, supplies, and devices; and
 - enhancing accountability and performance monitoring.

3.30 We looked to see whether a strategy had been established to set direction for diabetes care. As we began planning this audit, HPEI was finalizing a policy framework for chronic disease prevention and management which was consistent with models used in other provinces. The document, entitled *Stemming the Tide: Preventing and Managing Chronic Disease in Prince Edward Island*, serves as an overarching approach to guide chronic disease care in Prince Edward Island.

3.31 This policy framework was the culmination of one of HPEI's strategic initiatives. We were advised that the first phase of this initiative was completed during our audit fieldwork. It focused on two chronic diseases: Hypertension and Chronic Obstructive Pulmonary Disease. HPEI senior management advised that the second phase of this initiative would specifically include diabetes.

3.32 In addition to these strategic initiatives, HPEI had begun an exercise to identify gaps in diabetes care. In June 2013, HPEI renewed this process with the intention of developing a three to five year action plan on diabetes. As of the date of our report, HPEI had developed a draft document outlining high level goals and objectives. However, work plans, budgets, and approvals were still outstanding.

3.33 The draft action plan, as well as our interviews with members of the diabetes team, pointed to service gaps for diabetes education in long-term and acute care facilities. The Diabetes Program has committed to providing training for these healthcare providers one day per year. We

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were advised that the team received regular calls from these facilities requesting training for staff; however, the educators were unable to address these requests due to capacity constraints. Our work also noted a consistent reporting of service gaps for certain specialists, especially for an endocrinologist or internist as well as footcare specialists. These service gaps were also reflected in the results of our survey of family physicians. One third of the respondents reported timely access to footcare specialists was a barrier to providing diabetes care and 20 percent reported that access to endocrinologists was a barrier.

3.34 The policy framework and the recent planning efforts are important first steps to creating a comprehensive diabetes strategy; however, neither of these efforts has resulted in an actionable plan for diabetes care that spans across the continuum of patient care.

Recommendation

3.35 Health PEI should complete the strategy for diabetes care based on its adopted chronic disease management framework.

ORGANIZATION OF CARE

3.36 As previously described, there has been a general shift towards managing chronic disease using a team-based approach that incorporates interprofessional teams, support for self management and the use of electronic tools. The Canadian Diabetes Association echoes these features in its clinical practice guidelines chapter entitled *Organization of Diabetes Care*. In these guidelines, CDA makes several recommendations that include

- a focus on self-management;
- a collaborative care model using multi and interdisciplinary teams with support and education from a diabetes specialist; and
- organization interventions such as electronic databases and clinical flowcharts.

3. Diabetes - Strategy and Organization of Care

Focus on Self Management

3.37 The objectives of diabetes self-management education are to increase the individual's involvement in, confidence with and motivation for control of their diabetes. Self management education is a fundamental component of diabetes care and is important to minimize or delay harmful health complications. We noted that this philosophy has been adopted by the diabetes educators. It is embedded within the province's framework for chronic disease prevention and management and within the policies of the Diabetes Program.

Collaborative Care Model with Support from a Diabetes Specialist

3.38 CDA indicates that health care provided in a collaborative approach has been shown to increase the commitment and participation of the person with diabetes. CDA describes the following key aspects of the collaborative diabetes care model it recommends:

- interdisciplinary teams including the physician, diabetes educators (e.g. nurse and dietitian), and other specialists as required as well as the person with diabetes and their family;
- nutritional counselling by a registered dietitian; and
- family physician healthcare teams providing some of the chronic disease management and working collaboratively with more specialized diabetes educators within various models of care.

3.39 We found that HPEI had achieved this collaborative model to varying degrees across the five primary care networks. Depending on the situation, the service delivery model could be described as collaborative, partially collaborative, or minimally collaborative. **Exhibit 3.4** illustrates the involvement of diabetes program staff in diabetes care at each of the five primary care networks.

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EXHIBIT 3.4 DIABETES PROGRAM SERVICES IN PRIMARY CARE NETWORKS

PRIMARY CARE NETWORKS				
WEST PRINCE	EAST PRINCE	QUEENS WEST	QUEENS EAST	KINGS
Patients see diabetes educators at a government owned health center where their family physician is located. O'Leary Health Centre	Patients see diabetes educators at a government owned health center where their family physician is located. Harbourside Health Centre			Patients see diabetes educators at a government owned health center where their family physician is located. Montague Health Centre
Patients see visiting diabetes educators at a satellite health centre, where their family physician is located. Tyne Valley Health Centre Allerton Health Centre	Patients see visiting diabetes educators at a satellite health centre, where their family physician is located. Kensington Health Centre	Patients of certain family physicians see diabetes educators at their family physician's office.	Patients of certain family physicians see diabetes educators at their family physician's office.	Patients see visiting diabetes educators at a satellite health centre, where their family physician is located. Eastern Kings Health Centre
Family physicians refer patients to the Diabetes Program.	Family physicians refer patients to the Diabetes Program.	Family physicians refer patients to the Diabetes Program.	Family physicians refer patients to the Diabetes Program.	Family physicians refer patients to the Diabetes Program.

Collaborative

3.40 At one end of the spectrum, there were three of the five networks where the diabetes educators were co-located in a government owned health centre with several family physicians. This service delivery model would be an example of a collaborative model as the diabetes educators and the family physicians are better able to work together to share information and manage patient needs. These three networks are West Prince, East Prince, and Kings.

3.41 The West Prince diabetes team is physically located within the O'Leary Health Centre with two family physician practices. The East Prince diabetes team is physically located within the Harbourside Health Centre in Summerside with six family physician practices. In July 2013, at the end of our scope period, the Kings network diabetes team moved to

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the Montague Health Centre where all seven of the community's family physician practices are located. Based on these arrangements, we found that HPEI had implemented collaborative teams in these three networks representing approximately 20 percent of the province's practicing family physicians.

Partially Collaborative

3.42 In these same three networks, the diabetes educators also made periodic visits to satellite offices of the main government owned healthcare centres. These satellite offices are the Tyne Valley Health Centre, the Alberton Health Clinic, the Kensington Health Centre, and the Eastern Kings Family Health Centre in Souris. There were approximately eight practicing family physicians in these centres that received support from the diabetes educators. Diabetes educators reported regular visits to these satellite offices that ranged from one to five days per month.

3.43 In the two Queens networks, the diabetes educators are not physically located with any family physician practices. Initially, the only way for the educators to serve diabetes patients in Queens was through referrals to the two diabetes education sites in Charlottetown. HPEI estimated that referrals to the Diabetes Program were low and this, coupled with the recognition of the importance of a collaborative model, lead to the decision that the Queens networks diabetes educators would go to family physician offices to see patients on-site.

3.44 During the 16 month scope of our audit, we noted that the two Queens networks only supported the family physicians to a limited extent. In the Queens East network, diabetes educators were only conducting physician office visits for four of the family physician practices in the network. These visits ranged from one half day per month to one day per month. In addition, for approximately half our scope period, the educators conducted physician office visits for an additional three physicians for one half day per month with only limited support from a dietitian diabetes educator.

3.45 In the Queens West network, there were even fewer family physicians being supported with physician office visits by the diabetes educators and the visits to the family physician offices during our 16 month scope were intermittent. There were no visits by the dietitian diabetes educator during that time.

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Minimal Collaboration

3.46 At the other end of the spectrum, there was approximately 60 percent of the family physician practices that had minimal collaboration with the diabetes education program staff as the physician practice was not co-located with a diabetes education site and they did not receive visits from the diabetes educators. This service delivery model would be an example of the least collaborative model since the family physicians can only refer their patients to the diabetes educators. The majority of these family physician offices were in the urban centres of the Queens and East Prince networks.

3.47 As described earlier, this model is much less collaborative and therefore less efficient for the transfer of knowledge and information. Often information had to be faxed back and forth, with associated time lags.

3.48 We were advised that due to limited access to the services of the Diabetes Program in the Queens network, two family physicians had hired their own diabetes educators to work within their practices on a part-time basis. Diabetes patients of these two family physicians would have access to collaborative care through these private diabetes educators which are not considered part of the HPEI Diabetes Program.

Recommendation

3.49 Health PEI should improve access to collaborative care for diabetes patients, especially in the province's urban centres.

Support from a Specialist

3.50 The Canadian Diabetes Association's clinical practice guidelines recommend that members of the diabetes healthcare team should receive support and education, which can vary from indirect input to direct involvement from a diabetes specialist as part of a collaborative care model.

3.51 We found that the Diabetes Program received support and education from its Medical Director, a general internist working in the province. The Medical Director is a clinical support for the diabetes team and also sees patients with diabetes including the most complex cases and those patients using insulin pump therapy. We were advised that the Medical Director's capacity to take on new patients was limited due to the physician's other responsibilities and hospital duties.

3. Diabetes - Strategy and Organization of Care

3.52 In addition to the Program's Medical Director, there is one other Island physician to whom family physicians can refer their complex diabetes patients. We were advised that these two diabetes specialists had limited time to devote to building capacity within the primary care setting and that this was contributing to their workload and wait times.

Recommendation

3.53 Health PEI should ensure the Diabetes Program has sufficient access to specialist support services.

Organizational Interventions

3.54 The CDA clinical practice guidelines recommend specific organizational interventions to help healthcare providers organize their practices for optimal diabetes care. The three key recommended practices are described below.

- **Use of clinical flow sheets** - A clinical flow sheet is a one or two page form that gathers all important data regarding a patient's disease. The purpose of the form is two-fold: it guides the practitioner's care in accordance with the clinical practice guidelines and it provides a quick visual reference to track clinical indicators and screening assessments.
- **Use of an electronic database** - The CDA recommends the use of an electronic database to manage patient data including visits, screening information, and to record key test results. By tracking key test results, practitioners can monitor both individual patients and their entire diabetes patient population. Monitoring key test results is one way to see whether interventions have been effective.
- **Use of a systematic recall process** - Health outcomes can be improved if the healthcare team has a system to remind patients about upcoming lab tests and visits.

3.55 We conducted interviews with several HPEI staff, including all the diabetes educators across PEI, and reviewed a sample of patient files to assess whether HPEI had incorporated these organizational interventions into its Diabetes Program.

3. Diabetes - Strategy and Organization of Care

Clinical Flow Sheets

3.56 We found that the diabetes educators were using clinical flow sheets to track patient visits, noting key test results and screenings.

Electronic Database

3.57 In June 2012, the Diabetes Program implemented an electronic database to manage its patients. The database records key information about the patient and maintains a historical listing of visits with diabetes educators. Management of the Diabetes Program had focused on tracking five key clinical indicators for input into the database. These clinical indicators are four key lab tests and whether a foot assessment has been conducted.

3.58 We were informed that the database was still in its early development and was not yet operating at a level where the Program would be able to report reliably on clinical indicators from a population perspective.

3.59 We tested a sample of patient files to ascertain whether results for the five key clinical indicators had been input into the database. Although lab tests and foot assessments had been conducted, we noted instances where the information had not been entered into the database. We found that for 35 percent of the patient files we tested, conducted lab tests and/or foot assessments had not been entered into the database.

3.60 We were advised that diabetes educators are not always able to enter this information due to time constraints. Further, there are specific types of visits where the information is never entered into the database. When a diabetes educator sees a patient in a family physician office or at one of the satellite offices of the government owned health centres, the patient visit is entered into the database, however the clinical indicators are not. Because these key clinical indicators are not consistently input into the system, the integrity of the data for reporting is compromised. HPEI management advised that they were investigating the possibility of an electronic download of lab test results from the province's clinical information system to the diabetes database. Regardless of the system used for recording, it is important that the information is consistently captured and available for monitoring and reporting.

Recall Process

3.61 We looked for an automatic recall process to remind patients of upcoming visits and recommended lab work. For upcoming visits, we noted that patients are called the day prior to an appointment as a

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reminder, and that patients usually book their subsequent visit during a current visit. The system is unable to flag patients that are due for recommended lab work. During appointments, educators remind patients of necessary labwork and make recommendations to family physicians to order specific tests. We were advised that coordination of lab work orders is more efficient when the diabetes educators are working in a collaborative team with the family physician.

Recommendation

3.62 Health PEI should implement processes to ensure key clinical data is available for monitoring and reporting of health outcomes related to diabetes management.

RESOURCE ALLOCATION

Educator Caseload by Network

3.63 Our audit focused on HPEI's organization of diabetes care in accordance with best practices. However, during our audit, we noted the following operational issues that should be addressed.

3.64 Diabetes educators across the five primary care networks were not all responsible to provide the same diabetes services. Since the physician specialists are located in Summerside and Charlottetown, specific additional services tended to be concentrated there. For example

- The registered nurses in the East Prince and Queens East networks manage the Island's diabetic gestational population.
- The dietitians in the Queens West and East Prince networks manage the diabetic pediatric patients.
- Two registered nurses (one in Queens East and one in East Prince) work with the Island's insulin pump patients.

3.65 In addition to these specific services, we noted that the urban networks had more referring family physicians within their geographical boundaries. While the two rural networks each had approximately ten referring family physicians, approximately 80 percent of the Island's referring family physicians were in the East Prince and Queens networks. In the rural networks, there was approximately one diabetes educator for every five referring family physicians. In the urban networks, there were approximately nine to twelve referring family physicians for every

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diabetes educator. These additional referring physicians have an impact on the caseload of the diabetes educators in the urban networks. And, as previously reported, the diabetes educators in the two Queens networks are required to carry out family physician office visits.

3.66 Because of all these factors, there was a greater demand for the services of the diabetes educators in the urban centres resulting in longer wait times. For example, we were advised that the wait time to see the dietitian in the Queens West network was usually four weeks but had gone as high as eight weeks at the time of our audit.

Recommendation

3.67 Health PEI should evaluate its current mix of resources and services in the Diabetes Program to ensure optimal resource allocation.

Doctors Hiring Private Diabetes Educators

3.68 The Master Agreement between the Medical Society of Prince Edward Island, the Government of Prince Edward Island, and Health PEI is a contract that establishes a tariff of fees and other systems of payment for health services. The agreement permits fee for service physicians to privately hire healthcare professionals, such as diabetes educators and social workers, and bill HPEI for patient visits to these employees. HPEI pays a reduced rate for these visits which have been “delegated” to another healthcare provider.

3.69 Three fee for service family physicians in the Queens West network had been approved for this arrangement; however, only two of the three were billing HPEI for these types of visits during the scope of our audit. These physicians had privately hired their own certified diabetes educators, both registered nurses and dietitians, to work in their practices on a part-time basis to provide services to diabetes patients. This is a collaborative care model that operates outside the provincial Diabetes Program.

3.70 We interviewed these physicians about their practices and what lead them to hire their own private educators, especially since the Diabetes Program in the Queens West network had extended its services to include family physician office visits. The physicians found that when diabetes educators came to their practices, the extent of service offered by the

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Diabetes Program was not sufficient to properly service their patient caseload.

3.71 We spoke with HPEI management about the initial approval process and on-going monitoring of these arrangements. We found that HPEI had not conducted a cost-benefit analysis prior to approving these arrangements. HPEI had not conducted analyses to determine, for example, the funding required under these types of arrangements versus hiring additional resources under the Diabetes Program. We also expected, similar to the Diabetes Program, that HPEI would ensure that important data would be available as a basis for monitoring and reporting on patient outcomes. Health PEI did not have reporting mechanisms in place to obtain this information.

Recommendations

3.72 When considering physician requests for funding of private diabetes educators, Health PEI should conduct a cost-benefit analysis to assess the optimal use of resources for delivering diabetes care.

3.73 If arrangements are established providing collaborative diabetes care outside of the Diabetes Program, Health PEI should obtain information to monitor and report on results achieved.

MANAGEMENT RESPONSE

3.74 Our report was provided to management of Health PEI and a written response has been requested.

4. CHILD PROTECTION - INTERNAL CONTROLS

MAIN POINTS

What we examined

Child protection services are designed to help ensure children are protected from abuse, preventable harm, and neglect. As a section reporting through the Child and Family Services Division of the Department of Community Services and Seniors, Child Protection provides services to children in care through five offices, five residential group homes, and approximately eighty-five foster homes. Our objective was to identify and assess selected IT controls over payments for children in care and internal controls over cash transactions initiated through the Summerside Child Protection Office and the Tyne Valley Youth Centre.

Audit work for this report was substantially complete as of August 2013.

Why it's important

Children are among the most vulnerable members of our society. The Director of Child Protection is the guardian of children in care and has overall responsibility to provide for their needs. The nature of the work of Child Protection is such that management and staff are focused on the critical and complex social needs of children and their families and not on fundamental financial processes. It is important that there are appropriate internal controls over payments made for child protection services to ensure children are supported with the amounts to which they are entitled and taxpayers' interests are protected.

What we found

- A lack of segregation of incompatible functions in the Summerside Child Protection Office combined with limited management oversight has resulted in inadequate internal controls over cash and other transactions. Authorization and documentation supporting transactions was often insufficient.
- We found significant weaknesses in signing authority and access controls for the Department's case management and payment

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processing system. We also noted changes to master file information within the system were not adequately controlled. These system related weaknesses present risks for all child protection offices.

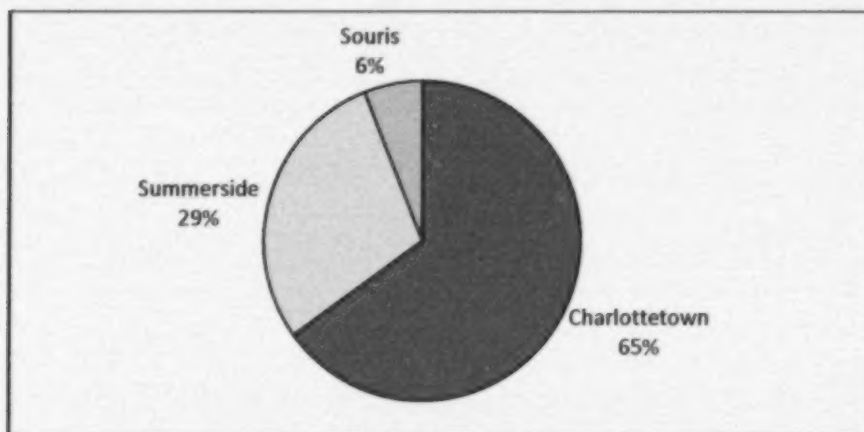
BACKGROUND

4.1 In 2012-13, we received a request from the Deputy Minister of the Department of Community Services and Seniors to conduct an audit of internal controls related to cash transactions for child protection at the Summerside Child Protection Office. Financial staff had identified risks related to a large volume of cash transactions processed through that office.

4.2 Child and Family Services is one of four divisions within the Department of Community Services and Seniors (the Department). The main section within this division is the Child Protection Section.

4.3 The *Child Protection Act* mandates the Department to provide child protection services across Prince Edward Island. These services are provided through three service teams based out of five offices across the province as well as five residential group homes and approximately eighty-five foster homes. Total expenditures including salaries under the Child Protection Section, amount to approximately \$10 million annually. **Exhibit 4.1** provides a breakdown of expenditures by location of each service team.

EXHIBIT 4.1
CHILD PROTECTION EXPENDITURES¹
BY LOCATION
2012-13



Source: Department of Community Services and Seniors

¹ Excluding unallocated administration and intake costs.

4.4 In certain situations, children are taken into care and are named wards of the Director of Child Protection. When a child is taken into care he or she is normally placed with a foster parent who provides care for that child. In certain situations the child may be placed in a group home where the group home staff become responsible for the care of that child. In rare situations other specific arrangements may be made. In all cases, in addition to the day-to-day care of the child, a case worker is assigned to provide guardianship functions and develop a case plan that is in the best interests of the child.

4.5 There are many different types of costs incurred when providing for the needs of children in care. **Exhibit 4.2** provides a listing of the primary types of expenditures and the purpose of each.

EXHIBIT 4.2
EXPENDITURE TYPES
CHILDREN IN CARE

Type of Cost	Description
Care Entry Costs	To cover needs when the child first comes into care
Room and Board	Established rates based on the age of the child and paid monthly to foster parents
Clothing Allowance	Established rates based on age
Special Allowance	Established rate used directly for the child for recreation and socialization, (e.g. books and toys)
Care Plan Specific	Specific requirements approved by the supervisor (e.g. sports enrollment fees, graduation photos, etc.)
Transportation	Reimbursement to foster parents for special transportation other than normal child care
Level Payments	Financial compensation to foster parents which is essentially a monthly retainer fee

Source: Child Protection Services Policy

4.6 Payments are processed through the Department's case management and payment processing system. Payment information is entered and approved in the system.

4.7 Payments are usually issued monthly directly to the foster parent but weekly payments can be made. In the case of children placed in group homes, the operational costs for the home are covered directly by government but clothing and special allowances for each child are provided monthly to the supervisor of the group home to be used for the needs of each child. When a child is placed under special living arrangements, payments for the child are made to the office supervisor to be used for the child's needs.

OBJECTIVE AND SCOPE

4.8 The objectives of this audit were to identify and assess

- internal controls over cash transactions initiated through the Summerside Child Protection Office and the Tyne Valley Youth Centre for children in care; and
- selected IT controls over payments for children in care.

4.9 We identified audit criteria which are the standards we used to assess performance. Senior management of the Department of Community Services and Seniors reviewed and agreed with the suitability of the criteria used in the audit.

4.10 We examined internal controls over payments to staff at the Summerside Child Protection Office and the Tyne Valley Youth Centre for children in care. We tested selected payments to determine whether they were accurate, properly authorized, and made in accordance with policy. We focused on payments made to staff between April 1, 2010 and December 31, 2012. For the sample items selected, we reviewed supporting documentation in paper files and system records as well as banking information.

4.11 Our audit also included a review of other cash controls. When the Department first identified its concerns regarding cash controls, some procedures were immediately implemented to strengthen cash handling procedures within its offices across the province. We obtained and reviewed information on various policies and guidance documents provided to staff.

4.12 We also examined certain IT controls including payment authorization levels and access controls that were applicable for all child protection offices across the province. We interviewed various departmental personnel as well as personnel of the Department of Finance, Energy and Municipal Affairs.

4.13 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Chartered Professional Accountants of Canada (formerly the

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Canadian Institute of Chartered Accountants) and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

INTERNAL CONTROLS OVER CASH TRANSACTIONS

4.14 We assessed whether there were adequate internal controls within the Summerside Child Protection Office to minimize risks regarding cash transactions and payments to staff. Overall we found poor internal controls.

4.15 Although our audit was focused on the Summerside office, internal controls are important to financial operations in all child protection offices. The weaknesses identified and the recommendations provided should be reviewed and considered for all child protection offices across the province.

4.16 Exhibit 4.3 provides a description of typical internal control activities.

EXHIBIT 4.3 INTERNAL CONTROL ACTIVITIES

Control Activity	Description
Segregation of Duties	Separating authorization, custody and record keeping roles to reduce the risk of fraud and error
Authorization of Transactions	Review and approval of transactions by persons with delegated signing authority
Retention of Records	Maintaining documentation to substantiate transactions
Supervision or Monitoring of Transactions	Observation or review of operational transactions
Physical Safeguards	Cash on hand kept to a minimum and secured
Senior Management Oversight	Comparison of expenditures to budget and identification of other anomalies
IT General Controls	Security and access controls
IT Application Controls	Programmed controls to reduce the incidence of loss

Segregation of Duties

4.17 One of the primary internal controls is appropriate segregation of duties. Separation of responsibilities related to cash and accounting transactions aids in the prevention of fraud or error.

4.18 We found that one administrative staff person is responsible for all financial tasks within the Summerside office. These tasks include receiving cash, issuing cash receipts, preparing bank deposits and all related accounting within the system. For many small organizations and offices, adequate segregation of duties is a challenge. Where there is a lack of segregation of duties within an organization, management oversight and review are of heightened importance to ensure the completeness, accuracy, and legitimacy of transactions.

Recommendation

4.19 Management of Child Protection should take action to improve segregation of key control functions related to cash and accounting records.

Payments

4.20 The Department's request for our review was based primarily on a large number of cheques issued to staff in the Summerside office. There are legitimate reasons why cheques are issued to staff other than for payroll purposes. Typically, these transactions would arise when reimbursement is required for expenses incurred while performing their duties for children in care.

4.21 We expected these types of transactions to be completed with documentation supporting the expenditure incurred including the reason, the amount, receipts where applicable, and a signed request for reimbursement. The transaction should be approved by a staff member with delegated signing authority and knowledge of the child's file. It should then be processed by the administrative staff and the payment provided by cheque or electronic funds transfer directly to the staff person requesting the reimbursement.

4.22 We selected a sample of 40 payments issued to staff members in the Summerside Child Protection Office to test for appropriate controls. These were related to unusual payments, staff advances and reimbursements, and allowances for children in care.

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Unusual Payments

4.23 We were advised that many payments to staff arose as a result of an overpayment to a foster parent. We examined all payments to staff in the Summerside office during our audit scope period where the explanation in the system indicated an overpayment situation. We were advised that these payments to staff were generated to accomplish a reallocation for accounting purposes. The cheques and cash receipt records generated were unnecessary. We expected to see the funds redeposited to the province's bank account on a timely basis. We noted several instances where we could not trace the cash to a deposit as well as several instances where the cash was not deposited for an extended period. In these instances, there was insufficient documentation on file to support the explanation provided. These amounts totaled approximately \$2,000.

4.24 We also examined each of these transactions identified as overpayments to determine whether appropriate authorization was obtained prior to processing. There were 12 instances of the 16 examined where we could not locate any evidence that the payment to the office supervisor was authorized by anyone other than the administrative staff. We were advised that approval to produce a payment was sometimes verbal or by email that was not printed or maintained in the file.

Staff Advances and Reimbursements

4.25 In addition to these overpayment situations, some payments to staff were generated to provide funds for a staff member to make a purchase or to reimburse a staff member or foster parent for an expenditure. In these cases, the practice in Summerside Child Protection Office had been to obtain a cheque payable to the office supervisor, to have the cheque cashed by the administrative staff, and to disburse the cash to reimburse for expenses incurred. Again, we looked for these payments to be appropriately approved and supported with documentation to indicate that the cash had been provided to the staff member or foster parent requesting the payment.

4.26 In three of eight instances there was no evidence that the payment was approved by a supervisor prior to processing. There was one instance where the reimbursement was not supported with receipts. In addition, in one case there was no signed receipt on file to indicate that the staff person had received the funds and therefore, we could not determine if the funds were used as intended.

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4.27 There is increased risk of unauthorized disbursements and errors when there are inadequate internal controls. Action needs to be taken to minimize cash transactions and strengthen oversight, approval, and documentation of transactions.

Recommendations

4.28 Management of Child Protection should take action to improve controls over payments to staff and cash receipt records.

4.29 Management of Child Protection should ensure that all payments are appropriately approved and approval documentation is maintained.

4.30 Management of Child Protection should ensure payments are supported with sufficient documentation.

4.31 Management of Child Protection should ensure that appropriately authorized advances and claims for reimbursement are paid directly to the staff member or foster parent involved.

Monthly Allowances

4.32 Children in care are provided allowances for certain ongoing needs. Each child in care receives \$125 per month for what is referred to as a special allowance. This money is to be used for various things such as books, entertainment and toys. Each child is also entitled to a monthly clothing allowance. The amount of this allowance is determined based on the age of the child and varies between \$60 to \$85 monthly.

4.33 These allowances are issued monthly and are set up as recurring payments for as long as the child is in care. If the child is in foster care, the payment would be issued to the foster parent. If the child was not in foster care and was either living independently or in a residential group home, the payment would be issued to the supervisor of the office or the group home. These cheques would then be cashed and the cash kept on hand for when purchases are made on behalf of the child. In the case of group homes, there could be up to ten children receiving \$210 per month which was held in cash on the premises.

4.34 Depending on the situation, the child's foster parent, office supervisor, or the group home supervisor is responsible to track the expenses of the child compared to the amount of money received from the

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allowances. Tracking of the allowances is important to support that the funds were spent for the intended purpose and that the remaining balance is correct.

4.35 We expected that the child's allowances would be clearly tracked with applicable receipts available to verify the purchases made on behalf of the child and the balance currently available to the child. We were informed by management that prior to February 2013 the tracking forms were not regularly reconciled.

4.36 A number of our sample items were payments to the Summerside Child Protection Office supervisor and the Tyne Valley Youth Centre supervisor for allowances for children in their care. We noted many issues with the tracking of these allowances. For three cases out of 21, the Child Protection section could not provide any documentation to support the tracking of these allowances. For sample items where tracking sheets were available, we noted in two cases there was no evidence from the tracking sheets that the monthly allowance had been added to the child's available balance although the payment had been received by the supervisor. In five cases the tracking sheets did not include carry forward balances so the amount the child had remaining from previous allowances could not be determined and did not appear to be available to the child in the current month. In summary, for over 30 percent of the tracking sheets examined we could not ascertain whether the balance available for the child was correct.

4.37 We also checked for receipts to support the expenses recorded on the tracking sheets. In almost 45 percent of the tracking sheets we reviewed some or all of the expenses claimed on the tracking sheets were not supported with receipts. In addition, we noted two instances where a child's basic needs were paid out of his or her special allowance funding and various cases where funds were borrowed from the child's allowances to pay for basic needs such as food.

4.38 In February 2013, management implemented new procedures to improve the tracking of allowances. Revised tracking sheets have been developed, and staff have been instructed that tracking sheets must be prepared and up to date. We were advised that tracking sheets are being requested from foster parents on a monthly basis. In addition, for group homes monthly allowances are now deposited electronically to a bank

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account for the group home. We were advised that cash maintained at the group home is now limited to one month's allowance per child.

Recommendations

4.39 Management of Child Protection should ensure allowances for children in care are monitored and documentation is maintained to support payments made on behalf of children.

4.40 Management of Child Protection should ensure the balance due to each child is reconciled monthly to the funds on hand.

Accounts Receivable Controls

4.41 Within Child Protection, most accounts receivable arise when foster parents are overpaid. This will most often result from timing differences related to processing payments. The rates for room and board are determined on a per diem basis and any unspent clothing allowance and special allowance are required to be transferred to the new foster parents. If the child moves and the foster parents' payment for care for that child has already been processed for the entire monthly entitlement, an overpayment will occur.

4.42 We expected that all accounts receivable would be accurately recorded in the Department's case management and accounting system. Not recording transactions accurately in the accounting system severely limits the usefulness and completeness of the information for management decision making. In addition, if accounts receivable are not recorded they cannot be collected or recouped from the next payment.

4.43 For the sixteen payments to staff which were indicated as relating to an overpayment situation, there were seven where an accounts receivable should have been recorded. We found in three of these seven cases, there was no evidence the accounts receivable arising from the transaction was ever set up. We found in three other cases, the accounts receivable was recorded in the system properly but then was reversed by administrative staff through accounting adjustments. There was no evidence that these amounts were ever received from the parties involved or withheld from future payments.

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4.44 We expected that when an accounts receivable was set up the balance would be monitored and collection procedures would be documented and applied consistently.

4.45 There is an electronic report available which lists accounts receivable/financial overpayments recorded in the system but we found that management was not generating this report and using it for oversight and follow up of outstanding receivables. We were advised that financial staff had examined the report at a point in time and made some necessary adjustments. In the Summerside office, the administrative staff who is in charge of cash receipts, cash deposits, and accounting activities is relied on to review and monitor accounts receivable. Again, these are incompatible functions as the opportunity exists to collect payments and adjust the accounting records.

4.46 In addition, we found that there was often no record of collection procedures to follow up on monies owed to the province. In many cases, the foster parents who had been overpaid as noted in our sample, continued to receive monthly payments for services. There was no process to regularly notify individuals of the amount of the balance outstanding.

Recommendations

4.47 Management of Child Protection should generate and review the accounts receivable reports on a regular basis.

4.48 Management of Child Protection should establish procedures to ensure

- all amounts owing are recorded;
- collection procedures are documented;
- amounts outstanding are followed up; and
- accounts receivable adjustments are reviewed and approved by management.

ISM SYSTEM CONTROLS

4.49 The Integrated System Management (ISM) is an electronic system used for case management for various provincial programs including child protection. Payments are initiated and approved within ISM and, through a direct interface with the province's financial system, the payments are processed and recorded in the financial accounts of the province. The

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system generates payments of approximately \$3 million annually related to child protection programs province wide.

4.50 When the ISM system was implemented, it was the intention that the case workers would input financial information to initiate payments. The amount of the monthly entitlement was calculated based on rules programmed within the system. A benefit change report was produced and reviewed by a supervisor. This independent review of the information input was a key control in the processing of payments within the system.

4.51 We were advised that although other sections of the Department of Community Services and Seniors have this level of review over processing of payments, the Child Protection Section does not require the caseworker to input payment data into the system to generate a payment. Instead, within that section, direction is to be given from the caseworker, normally on an action request form, to the administrative staff regarding the expense. The administrative person completes all of the processes within the system to generate a payment. Consequently, unlike other sections, there is not always an independent review of payments within the ISM system.

Recommendation

4.52 Management of Child Protection should strengthen controls to ensure that payments for children in care are independently reviewed.

Master File Changes

4.53 In the Child Protection Section, many payments are recurring in nature. In this environment it is particularly important that there are controls over the creation of new clients. The ISM system controls require each client to have a valid Personal Health Number (PHN). For purposes of service delivery, administrative staff can open a service to a new client but the system will not allow staff to create a client file with his/her own PHN. We were advised by system administrators however, that anyone with signing authority in ISM, including administrative staff, can make changes to client master file records such as changes to names and addresses.

4.54 The ability to generate payments and revise master file records are incompatible functions. We would expect, at a minimum, a process whereby master file changes would be highlighted for management's

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review and approval. We found there was no established process to review changes made to master file records. This could be accomplished, for example, by a programmed system override requirement or by producing a monthly report of all master file changes for review and approval.

Recommendation

4.55 Management of Child Protection should ensure all master file changes are reviewed and approved.

Signing Authority

4.56 In accordance with Treasury Board policy, anyone authorizing payments must be delegated signing authority by the Deputy Minister and is to only sign within the limits set by the signing authorization.

4.57 Signing authority levels are programmed into ISM such that the system will not allow an individual to authorize a payment that exceeds his/her signing authority level. There is an electronic interface between ISM and the province's financial system which allows payments authorized in ISM to be processed in the financial system and released to the payee. Therefore, we expected that signing authority granted in ISM would be consistent with signing authority for the province's financial system managed by the Comptroller's Office.

4.58 We noted some inconsistencies between the list of personnel granted signing authority by the Deputy Minister and the personnel programmed in ISM with signing authority. There were 13 personnel with signing authority in ISM that had not been delegated signing authority by the Deputy Minister.

4.59 Further, in six cases the level of signing authority programmed in ISM was higher than what was granted by the Deputy Minister and reported to the Comptroller's Office.

Recommendations

4.60 Management of Child Protection should ensure that only personnel with properly delegated signing authority are authorized to process payments in ISM.

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4.61 Management of Child Protection should ensure that signing authority levels are consistent between ISM and the province's financial system.

System Access

4.62 In addition to signing authority limits within ISM, each user of the system is assigned an access level which is to correspond with their job duties. There are many staff who require access to ISM information but do not require signing authority to process payments. The ISM system controls allow users access to only those accounts and client files based on the approved access level assigned. Given the confidential nature of the information in the child protection program, we expected access to client information to be closely controlled.

4.63 Based on our review of staff who had access to ISM at the time of our audit, we noted there were nine former employees who still had access in ISM. We noted three people, including two current and one former staff member, who had been assigned director level access within ISM although they are not directors. We did not verify all staff members' approved access to what was programmed in ISM. However, based on the issues noted it is possible that staff have unauthorized access to information and unauthorized staff have access to the system.

Recommendation

4.64 Management of Child Protection should ensure that access levels in ISM are current and access rights are limited to what each staff member needs to perform his or her required duties.

End Dates

4.65 The ISM includes programmed payment end dates as a key control. Recurring payments are set up for expenses such as room and board that are paid monthly based on rates established in policy. A recurring payment will continue to be issued to the payment end date unless changes are made within the system. To clarify, payments are to be adjusted in accordance with policy and the child's case plan as necessary but these payment end dates were designed as a control to prevent a situation where a file review was overlooked and the payments continued.

4.66 We found that some recurring payments for children in care had end dates set at the child's eighteenth birthday. In one instance, the end

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date was the year 2029. Without any adjustments, the monthly payments would continue to be issued until that date.

4.67 We were advised this timeframe was used because the children are under the care of the Director of Child Protection until they turn eighteen. Setting payment end dates established that far into the future is not an effective control.

Recommendation

4.68 Management of Child Protection should ensure that payment end dates entered in the system reflect a reasonable time frame for review of the child's file.

MANAGEMENT ACTION

4.69 We were advised that when concerns regarding cash transactions and handling procedures were brought to the attention of management of Child Protection in the fall of 2012, controls over cash within child protection offices were weak.

4.70 In addition to the Department's request for our audit, management took some action to strengthen controls over cash and issued a directive to staff outlining a number of required changes in procedures.

4.71 Direction was provided to staff by email and supported with staff meetings, however, we noted a procedures manual for financial transactions is not available to support staff in implementing appropriate financial controls. A procedure manual is a valuable resource for staff and also documents appropriate procedures that can be used by management in staff training and to hold staff accountable.

4.72 Although management took some action to improve internal controls, our audit report identifies many other internal control weaknesses that require management's attention.

Recommendation

4.73 Management of Child Protection should develop a procedures manual for financial transactions as a resource for staff.

MANAGEMENT RESPONSE

4.74 Our report was discussed with senior management of the Department of Community Services and Seniors, and a written response to our report has been requested.

5. ISLAND COMMUNITY FUND GRANT PROGRAM

MAIN POINTS

What we examined

The Island Community Fund grant program (the Program) was established to provide funding to not-for-profit organizations and municipal governments to develop and implement initiatives that address the province's infrastructure needs. On April 1, 2010, the Program was transferred from the former Department of Communities, Cultural Affairs and Labour to the Department of Fisheries, Aquaculture and Rural Development (the Department). In May 2010, the Program guidelines and criteria were amended to better complement the province's *Rural Action Plan*. We looked at whether the Island Community Fund grant program, as amended by the Department, was designed in accordance with Treasury Board policy and best practice, whether the project approval process was consistent with approved program guidelines and criteria, and whether appropriate internal controls were in place to ensure that successful applicants used the funds as intended.

Audit work for this report was substantially complete as of December 2013.

Why it's important

In 2010, the provincial government announced a rural action plan to address the struggling rural economy in the province. The Department's Rural Development Division was established with two of its three primary goals to provide leadership towards the implementation of the *Rural Action Plan* and to ensure the efficient and effective delivery of the Island Community Fund grant program. The Island Community Fund is a multi-year grant program with an initial budget of \$27.5 million and, since 2010, it has represented approximately 70 percent of the Department's total annual grant spending. As the Island Community Fund grant program plays such a key role in the province's rural economic development strategy, it is important that the program is properly designed and administered.

5. Island Community Fund Grant Program

What we found

- Certain key aspects of a grant program accountability framework were lacking in the areas of definitive performance indicators and formal evaluation requirements.
- The Department had administered the program since April 1, 2010, and had not publically reported on performance in relation to the targets established.
- Management had established and implemented effective payment processing controls over the distribution of funds.

BACKGROUND

5.1 The initial guidelines and criteria framework for the Island Community Fund grant program (the Program) were approved by Executive Council in October 2008. The Infrastructure Secretariat Branch of the former Department of Communities, Cultural Affairs and Labour was initially responsible for the delivery of the six year, \$27.5 million program which was scheduled to end March 31, 2014.

5.2 The Program offered funding for two types of projects. Small projects were eligible to receive up to 75 percent funding to a maximum of \$150,000 and strategic initiatives, described as projects identified as promoting the strategic interests of the province, were eligible to receive up to 50 percent funding to a maximum of \$1.5 million.

5.3 Subsequent to the release of the provincial *Rural Action Plan*, management of the Program was transferred to the Rural Development Division of the Department of Fisheries, Aquaculture and Rural Development (the Department). In May 2010, Executive Council approved a submission from the Department requesting changes to the Program guidelines and criteria with the intent of improving program alignment with the goals and vision of the *Rural Action Plan*.

5.4 Changes to the project criteria included a statement that the strategic project component would provide funding for projects supported in the *Rural Action Plan* and that eligible capital projects included under the small project component would be expanded to include projects that

5. Island Community Fund Grant Program

benefited rural-based primary industries including tourism, manufacturing, processing, innovation and technology, or other economic disciplines that create wealth.

5.5 As a result of these program changes, six community development officers were assigned responsibility for the administrative coordination of the program. A Ministerial Review Committee was appointed to make decisions on project applications with a grant amount of less than \$150,000 and to make recommendations to Executive Council for approval of strategic projects with a grant amount of \$150,000 or greater.

5.6 The Ministerial Review Committee is chaired by the Minister of the Department and includes the Minister of Finance, Energy and Municipal Affairs; the Minister of Innovation and Advanced Learning; and three additional members of the Legislative Assembly.

5.7 **Exhibit 5.1** provides a summary of approved grants as of July 31, 2013, based on the location of the project.

EXHIBIT 5.1 ISLAND COMMUNITY FUND SUMMARY OF APPROVED GRANTS AS OF JULY 31, 2013

Area	Total Value of Approved Grants	Number of Projects	Percent of Program Spending
Rural Prince County	\$5,607,000	121	33%
Rural Queens County	3,778,000	79	22%
Kings County	2,814,000	67	17%
Charlottetown	3,237,000	30	19%
Summerside	883,000	12	5%
Cornwall	350,000	11	2%
Stratford	284,000	7	2%
Total	\$16,953,000	327	100%

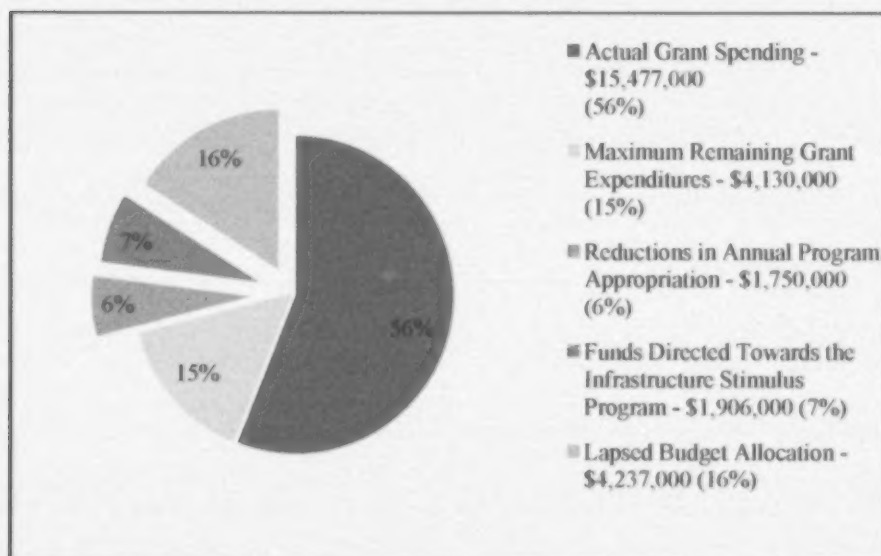
Source: The Department of Fisheries, Aquaculture and Rural Development

5.8 In July 2013, Executive Council approved a request to extend the Program deadline to March 31, 2015 to correspond with the end date of the *Rural Action Plan*. At that time, no additional funds were approved over and above the \$27.5 million. **Exhibit 5.2** shows the distribution of the original funding commitment from the inception of the Program to July 31, 2013. If there are no further budget adjustments and the

5. Island Community Fund Grant Program

remaining budget is fully spent, the maximum program spending will be \$19.6 million.

EXHIBIT 5.2 ISLAND COMMUNITY FUND DISTRIBUTION OF PROGRAM FUNDING AS OF JULY 31, 2013



Total Original Budget	\$27,500,000
Less: Reductions in Annual Program Appropriation	(1,750,000)
Less: Budget Allocated to the Infrastructure Stimulus Program	(1,906,000)
Revised Program Budget	\$23,844,000
Less: Lapsed Budget Allocation as of March 31, 2013	(4,237,000)
Revised Program Funding	\$19,607,000

Source: The Department of Fisheries, Aquaculture and Rural Development

OBJECTIVE AND SCOPE

5.9 Our audit objectives were to determine whether the Department had

- designed the Island Community Fund grant program in accordance with best practices;
- approved projects based on program guidelines and eligibility criteria; and
- ensured funds were spent in accordance with the approved funding agreements.

5. Island Community Fund Grant Program

5.10 The standards against which we measured the Department's performance came primarily from three sources: the requirements of Treasury Board policy section 13.08 *Conditional Grants*, the grant program document approved by Executive Council in May 2010 and best practices. These standards, or criteria, were reviewed with senior management prior to the commencement of the audit. Management accepted the relevance and suitability of the criteria used in the audit.

5.11 Our audit of the Island Community Fund grant program focused on the Department's management of the Program between April 1, 2010, and July 31, 2013. We examined management practices for program design, assessing applications, approving agreements with clients, processing payments under those agreements, and monitoring and reporting of the results of the Program. Management control processes administered by the former Department of Communities, Cultural Affairs and Labour were not included in our audit scope.

5.12 Our audit included a review of various documents, program guidelines and criteria, Treasury Board policies, and internal records. We also interviewed various departmental personnel. We selected a sample of projects with payments recorded during the April 1, 2010 to July 31, 2013, scope period. We examined project applications, approvals, funding agreements and payment claims for each project in our sample.

5.13 We reviewed payment controls to assess compliance with Island Community Fund Program policies as well as applicable Treasury Board policies. Our observations and conclusions relate only to the management practices and actions of the Department. We did not audit the records of external organizations and therefore our comments and conclusions do not pertain to the practices or performance of these organizations.

5.14 We performed our audit in accordance with the standards for assurance engagements encompassing value-for-money audits established by the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants) and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OBSERVATIONS AND RECOMMENDATIONS

**PROGRAM DESIGN
AND
PERFORMANCE
MEASUREMENT**

5.15 The Island Community Fund grant program is subject to Treasury Board policy on conditional grants which are defined as:

Payments made to a recipient for which Government receives no goods or services but stipulates that certain conditions must be met. Such payments are subject to audit and in some cases, subject to program criteria and guidelines.

5.16 The intent of Treasury Board policy 13.08 *Conditional Grants* is to ensure that grant programs are managed efficiently, cost effectively and within an appropriate accountability framework. We looked to see whether the Program had been designed in accordance with this Treasury Board policy and best practice.

*Objectives and
Performance
Indicators*

5.17 Treasury Board policy requires that grant program goals and objectives are clearly stated and that measurable performance indicators and expectations are established. Formal performance indicators help to provide clarity on a program's objectives and are required by Treasury Board policy as a means to hold departments accountable for their spending and to measure the success of grant programs.

5.18 We found that when the revised guidelines and criteria were approved in 2010, the Department included a broad program objective. The Program's objective was to "enable non-governmental organizations and municipal governments to access funds for capital projects which will improve their capacity as vibrant and healthy communities." To give further direction to the Program, this objective was supplemented with funding targets of

- eighty percent of total spending targeted towards rural based projects; and
- a minimum fifty percent of the rural targeted funds to be for economic development projects.

5.19 These approved performance indicators demonstrated government's intention that this program would focus support on economic development in rural communities. Senior management of the

department stated that these funding targets were “notional”, and they did not proactively manage the Program in order to achieve them. Rather, they considered each project on a case by case basis. No other performance indicators were established for the Program. Establishing targets that are notional weakened the accountability framework of the Program.

Eligibility Criteria

5.20 Best practices in grant programs support the need for eligibility criteria to directly address and contribute to the program’s expected results. The applicant and project eligibility criteria for the Island Community Fund were clearly defined within the Program guidelines. We noted that the project eligibility criteria were broadly stated and essentially allowed all projects that were capital in nature.

Program Evaluation

5.21 Treasury Board policy also requires that a grant program design includes the timing for program evaluation in accordance with its established performance indicators. Regular evaluation of a program’s results is important to assess achievement of program objectives as well as to take corrective action if performance is not as expected. We noted that no formal evaluation timelines had been established for the Program even though it extended over a six year period.

Reporting and Monitoring

5.22 Treasury Board policy requires each department to report in its annual report the results and outcomes achieved for its significant divisions and programs. Based on the financial magnitude of this Program and the fact that it had been operating since 2008-09, we expected results achieved to be publically reported by the Department. We looked for any documentation where the Department had reported publically on Program results. The Department published annual reports for 2011 and 2012 and an update on the progress of the *Rural Action Plan* in April of 2011. We found that the information related to the Island Community Fund grant program reported within these documents was activity based rather than results based as these reports refer to the dollars spent and number of projects approved.

5.23 The Department had internal tracking data on approved projects which it actively maintained. The database contained data fields directly related to the Program's notional funding targets. We found that, in general, the information contained within the internal tracking data was accurate, up to date and properly classified. **Exhibit 5.3** provides a

5. Island Community Fund Grant Program

summary of Program results as of July 31, 2013, based on the location of the project. We were advised by management that several projects were considered strategic and the economic benefits would extend beyond the community in which they were located.

EXHIBIT 5.3 ISLAND COMMUNITY FUND PROGRAM RESULTS BASED ON APPROVED GRANTS AS OF JULY 31, 2013

	Project Type	Rural	Urban	Total
Economic	Tourism	\$2,218,000	\$1,934,000	\$4,152,000
	Primary Industry	785,000		785,000
	Manufacturing	163,000		163,000
Other	Community Halls	3,200,000	420,000	3,620,000
	Recreation	1,942,000	1,368,000	3,310,000
	Health and Safety	1,983,000	370,000	2,353,000
	Playgrounds	259,000	256,000	515,000
	Other	1,592,000	463,000	2,055,000
	Total	\$12,142,000	\$4,811,000	\$16,953,000
	Percentage	72%	28%	100%

Source: The Department of Fisheries, Aquaculture and Rural Development

5.24 The notional funding targets indicated 80 percent of all grant funding would be directed to rural projects. As illustrated in **Exhibit 5.3**, 72 percent of approved funding was for projects based in rural communities. In addition, the targets specified that 50 percent of the rural grants would be directed to economic development projects. Of the approved funding for rural projects, only 26 percent was for economic development projects. Program results compared to notional targets were provided to Executive Council in July 2013.

5.25 We were advised that the Program had been intentionally designed by the Department to be flexible. The combination of notional performance indicators and no established timelines for program evaluation meant that the framework for accountability for this significant multi-year grant program was not adequate. In addition, as of the date of

our audit, there had been no public reporting on the outcomes of the Program.

Recommendation

5.26 The Department of Fisheries, Aquaculture and Rural Development should strengthen its accountability framework for its conditional grant programs in the following areas

- **establishing definitive performance indicators;**
- **establishing a timeline for formal program evaluation; and**
- **reporting on performance achieved.**

PROJECT APPROVAL PROCESS

5.27 As previously reported, in May 2010 Executive Council approved revisions to both the applicant and project eligibility criteria with the intention to have the Program better complement the recently announced *Rural Action Plan*.

5.28 The Program guidelines list the following as approved applicants:

- incorporated or registered not-for-profit organizations which have a mandate for community improvements or economic activity;
- a municipal government, or its agent, including a corporation that is wholly owned by the applicant;
- non-profit cooperatives that do not issue share dividends; and
- for the strategic project component, provincial government owned agencies and corporations.

5.29 The program guidelines list the following as eligible projects:

- capital projects that will improve the rural economic capacity, which may include projects that support the primary industries, tourism, manufacturing, processing, innovation and technology or other economic disciplines that create wealth;
- capital projects which support regional and provincial government priorities as described in the *Rural Action Plan*, that enhance the social, heritage, cultural, recreational, natural environment or health and safety of Island communities; and

5. Island Community Fund Grant Program

- capital projects that will encourage population retention and growth in rural communities.

5.30 We expected the Department to have implemented an approval process that was based on the Program's eligibility criteria and to have proper documentation and support for approved projects. We conducted various procedures in order to test compliance with eligibility criteria. We selected a sample of 44 files to ascertain whether the proponent met the applicant and project eligibility criteria.

5.31 Our testing found, in general, that approved applicants met the eligibility criteria and documentation was maintained.

5.32 All projects tested were found to be capital in nature as required by the project eligibility criteria. We did note two instances where the project was granted funding at a level greater than the allowable thresholds established in the Program guidelines. In one instance a project received funding which was greater than the maximum allowable amount of \$150,000. In the second instance, a strategic project was granted funding at 75 percent which is greater than the maximum allowable threshold of 50 percent.

Recommendation

5.33 The Department of Fisheries, Aquaculture and Rural Development should ensure that exceptions made when applying Island Community Fund grant program guidelines are documented as such and approved by Executive Council.

PAYMENT PROCESSING

5.34 Treasury Board policy on conditional grants requires that departments make provisions for appropriate administration and accountability with the conditional grant recipient. The approved Program guidelines and criteria contained the Department's framework for payment processing controls.

5.35 Key controls outlined by the Department required that grant recipients sign a funding agreement stipulating the terms and scope of the project. An advance payment of 50 percent of the approved funding was then provided. The applicant would then submit a claim accompanied by invoices prior to receiving a second payment of 40 percent. The final 10

5. Island Community Fund Grant Program

percent payment was released once a final claim had been provided detailing the total project expenditures.

5.36 We expected the Department to have implemented proper controls for the disbursement of funds to ensure that the approved claims process was followed and that the funds were used in accordance with each signed funding agreement.

5.37 Based on our testing, controls over payment processing were adequate. The Department had funding agreements, written in accordance with Treasury Board policy, signed and included for each project. Processed claims and invoices were documented on file and each payment was authorized by the appropriate level of authority.

MANAGEMENT RESPONSE

5.38 Our report was discussed with senior management of the Department of Fisheries, Aquaculture and Rural Development. A written response to our report has been requested.

FINANCIAL AUDITS

6. INTRODUCTION TO FINANCIAL AUDITS

OVERVIEW

6.1 To hold government accountable for its use of public funds and the resources entrusted to it, members of the Legislative Assembly and the public need sufficient, reliable, and timely information on the province's financial position and its operating results.

6.2 Governments primarily provide such information by preparing financial statements which are intended to provide a full accounting of the financial affairs and resources that government controls. Financial statements provide information to describe the changes in a government's financial position and how and where a government obtains its revenues and incurs its expenditures in the accounting period. Financial statements and other financial information help governments demonstrate accountability for the resources, obligations, and financial affairs for which they are responsible.

6.3 Overall responsibility for financial reporting and related decisions rests with the governing body of an organization, such as a government or a board of directors. Management of the organization is responsible for preparing the financial information with oversight from those charged with governance. Reported financial information reflects management's assertions and provides information that is used to assess an organization's performance and management's stewardship over the economic resources entrusted to it. Therefore, it is imperative that the reader has information on a timely basis and the financial information is credible.

6.4 To add credibility to financial information being reported, users often rely on the work of an independent auditor. The auditor can objectively assess the accounting principles used, the estimates made, and other management assertions reflected in the reported financial information. The auditor examines the entity's accounts and the presentation and disclosures of its financial information in accordance with Canadian generally accepted auditing standards. Section 13 of the *Audit Act* requires the Auditor General to perform financial audits of the province's consolidated financial statements, Crown controlled or owned

corporations, and the trusts and funds held by any agency of government insofar as they are not subject to a financial audit by an external auditor.

6.5 Canadian generally accepted auditing standards require the auditor to obtain a high level of assurance as to whether or not the financial information is fairly presented. Upon completion of the examination, the auditor expresses his/her opinion on whether the financial information presents fairly, in all material respects, the information reported. The auditor's opinion is expressed in the independent auditor's report.

6.6 In addition to issuing an independent auditor's report on the financial information, the auditor is required to communicate to those charged with governance and to management any significant issue or matter identified during the audit. This communication is generally referred to as a management letter. It identifies any significant weakness noted in the entity's system of internal control, in management processes, compliance issues or any other area of concern which the auditor concludes should be brought to the attention of management and those charged with governance.

6.7 For the majority of the financial audits we performed, management letters were issued. We brought to the attention of management and the governing body any significant issue or concern identified during the audit and made recommendations to address these items.

6.8 In the following chapters, we provide summary comments on indicators and our audits of the province's consolidated financial statements, agencies, boards, and Crown corporations as well as appropriations and special warrants.

7. INDICATORS OF FINANCIAL CONDITION

OVERALL COMMENTS

7.1 As in previous years, we are providing information on a number of indicators of financial condition. The consolidated financial statements of the province are a primary source of information to assess financial condition. Although financial information is important, financial statements do not provide a full perspective of how well a province is performing in relation to the overall economic and fiscal environment. Presentation of commentary and trends on a number of indicators helps to provide insight into government's ability to maintain its programs and services, the flexibility it has to respond to economic changes, and its vulnerability to external sources of funding.

7.2 Government does provide some commentary and analysis on the province's finances in its financial statement discussion and analysis section of Volume I of its 2013 Public Accounts. We provide comments and suggestions for improvements in a separate chapter of our report.

7.3 For the year ended March 31, 2013, the province incurred an operating deficit of \$78.6 million. Net debt increased by \$131.5 million from the prior year and is over \$2.0 billion at March 31, 2013. This level of net debt is significant and we provide information on a number of indicators in relation to net debt.

7.4 Ultimately, decisions on raising revenue and incurring expenses and debt is one of government policy. Information in this chapter is presented solely to assist government, legislators, and the public to better understand the state of the province's finances. It is intended to provide a basis for discussion and debate and assist in making decisions to protect the financial health of the province.

BACKGROUND

7.5 This chapter provides information on a number of indicators which are included in the Public Sector Accounting Board's (PSAB) Statement of Recommended Practice. Our comments are based on the province's consolidated financial statements which report its financial position and

7. Indicators of Financial Condition

operating results in accordance with Canadian public sector accounting standards.

7.6 Our current update provides financial information and indicators for the last three fiscal periods. Information was not available to restate earlier periods. Restatement of earlier periods would be required due to a number of accounting changes resulting from a new accounting standard as well as the recognition of accumulating but non-vesting sick leave and a change in the government's tangible capital asset policy. Consistent with our 2013 Annual Report, we provide comparisons to other jurisdictions which were selected based on geographical proximity to Prince Edward Island.

SUMMARY FINANCIAL INFORMATION

FINANCIAL HIGHLIGHTS

7.7 **Exhibit 7.1** summarizes the province's financial position and operating results for the last three years. The exhibit highlights a continued growth in liabilities, net debt, and the accumulated deficit as well as continued annual deficits.

EXHIBIT 7.1 SUMMARY FINANCIAL INFORMATION YEAR ENDED MARCH 31 (Millions)

	2011 Restated	2012 Restated	2013
Financial Assets	\$ 722.5	\$ 831.4	\$ 795.4
Liabilities	<u>2,483.9</u>	<u>2,739.5</u>	<u>2,835.0</u>
Net Debt	1,761.4	1,908.1	2,039.6
Non Financial Assets	<u>914.8</u>	<u>977.4</u>	<u>1,030.3</u>
Accumulated Deficit	<u>\$ 846.6</u>	<u>\$ 930.7</u>	<u>\$1,009.3</u>
Revenues	\$1,554.6	\$1,587.1	\$1,597.0
Expenses	<u>1,604.4</u>	<u>1,671.2</u>	<u>1,675.6</u>
Annual Deficit	<u>\$ 49.8</u>	<u>\$ 84.1</u>	<u>\$ 78.6</u>
Nominal Gross Domestic Product*	<u>\$ 5,202</u>	<u>\$ 5,384</u>	<u>\$ 5,547</u>

Source: *PEI Department of Finance, Energy and Municipal Affairs

7. Indicators of Financial Condition

7.8 The annual surplus/deficit indicates the extent to which a government spends more or less than what is raised in revenue in a particular year. It basically shows whether a government is living within its means. For the year ended March 31, 2013, the province incurred an operating deficit of \$78.6 million.

7.9 Provincial expenses have grown from \$1,671.2 million in 2011-12 to \$1,675.6 million in 2012-13. Per capita spending during 2012-13 was \$11,537 (2012 - \$11,513). In comparison, Nova Scotia's per capita spending was \$10,967 (2012 - \$10,563) while New Brunswick spent on average \$10,966 (2012 - \$10,659) per capita during 2012-13.

7.10 **Exhibit 7.2** provides a breakdown of the change in the province's annual deficit from the prior period.

7. Indicators of Financial Condition

EXHIBIT 7.2 CHANGE IN ANNUAL DEFICIT YEAR ENDED MARCH 31 (Millions)

	Revenues	Expenses	Deficit
2011-12 Deficit (restated)	\$1,587.1	\$1,671.2	\$(84.1)
Change in:			
Tax revenue	26.1	-	
Other government revenue	17.7	-	
Government of Canada	(35.3)	-	
Sinking fund earnings	(1.0)	-	
Government business enterprises	2.4	-	
Agriculture and Forestry	-	5.9	
Community Services and Seniors	-	(11.9)	
Education and Early Childhood Development	-	4.2	
Environment, Labour and Justice	-	1.4	
Finance, Energy and Municipal Affairs	-	(2.4)	
Fisheries, Aquaculture and Rural Development	-	(3.3)	
Health and Wellness	-	21.3	
Innovation and Advanced Learning	-	(8.3)	
Transportation and Infrastructure Renewal	-	(13.8)	
Other expenses	-	(2.3)	
Interest on debt	-	9.7	
Amortization	-	3.9	
2012-13 Deficit	<u>\$1,597.0</u>	<u>\$1,675.6</u>	<u>\$(78.6)</u>

7.11 The primary factors accounting for the change in the annual deficit from the prior period were increases in personal and corporate income tax revenues of \$14.6 million and \$10.1 million respectively which accounted for the majority of the \$26.1 million increase in tax revenue. Increases of \$5.4 million in Grain Elevators Corporation sales and an increase in Finance PEI revenues accounted for the majority of the \$17.7 million increase in other government revenue. The decline in Government of Canada revenue was primarily attributable to base funding for infrastructure which declined by \$41.0 million from 2011-12. Increased Health PEI expenses of \$20.5 million and a \$9.7 million increase in

7. Indicators of Financial Condition

interest charges on debt accounted for a significant portion of the increase in expenses. Interest charges on debt included \$6.7 million for new promissory notes related to pension funds. Increases in expenses were offset by reductions in expenses primarily in the departments of Transportation and Infrastructure Renewal and Community Services and Seniors.

7.12 The following sections provide an update on the province's financial condition with a continued focus on sustainability. Comments on flexibility and vulnerability are also provided.

SUSTAINABILITY

7.13 Sustainability is an important element to include in an assessment of financial condition because it indicates the extent to which the province can maintain programs and services and meet existing creditor, employee, and other obligations without increasing the debt or tax burden.

Expenses as a Percentage of GDP

7.14 Government spending as a percentage of gross domestic product (GDP) has not significantly changed over the past three years. An increasing ratio indicates government spending is growing at a rate faster than the growth in the economy. At March 31, 2013, government spending represented approximately 30.2 percent of GDP compared to 31.0 percent in the prior period. In comparison, Nova Scotia's expenses as a percentage of GDP were 27.4 percent (2012 - 27.1 percent) and New Brunswick's were 25.4 percent (2012 - 25.0 percent) at March 31, 2013.

7.15 Net debt is an important measure of the financial position of the province. Net debt provides a measure of the amount of future revenue that will be required to pay for past operations. Last year, we reported that the province's net debt had increased significantly over a period of ten years. Net debt further increased in 2012-13 by 6.9 percent or \$131.5 million and is over \$2.0 billion at March 31, 2013.

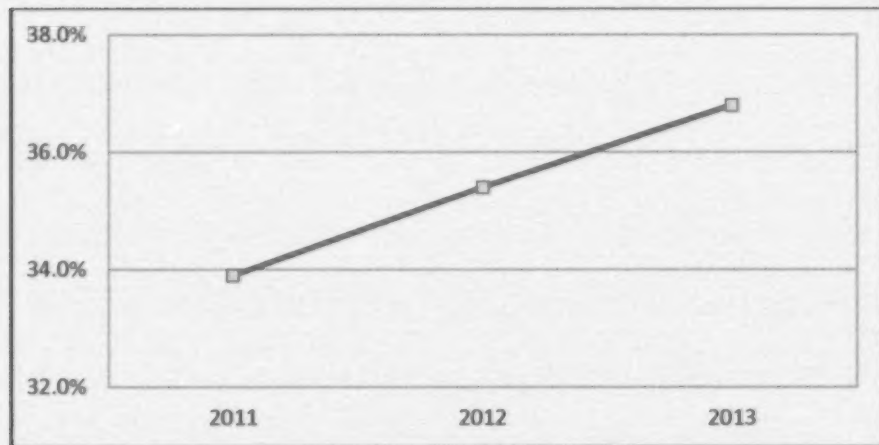
Net Debt to GDP

7.16 Net debt to GDP provides a measure of the financial demands placed on the economy by the province's spending and taxation policies. An increasing ratio indicates net debt is growing at a rate faster than the growth in the economy which places higher demands on future revenues. **Exhibit 7.3** notes the net debt to GDP ratio continued its increasing trend and grew from 35.4 percent last year to 36.8 percent at March 31, 2013.

7. Indicators of Financial Condition

In comparison, Nova Scotia's was 36.7 percent (2012 - 36.2 percent) and New Brunswick's was 33.9 percent (2012 - 31.5 percent) at March 31, 2013.

EXHIBIT 7.3
NET DEBT AS A PERCENTAGE OF GDP
YEAR ENDED MARCH 31



	2011 Restated	2012 Restated	2013
Net Debt to GDP	33.9%	35.4%	36.8%

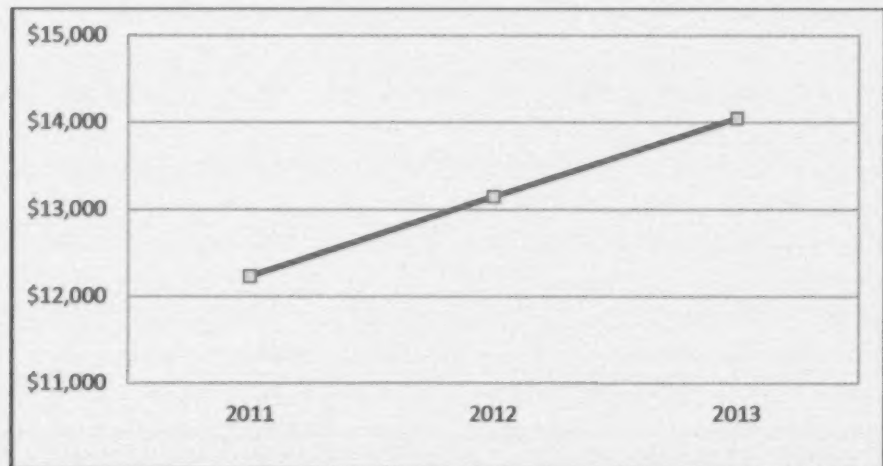
Net Debt per Capita

7.17 Net debt per capita is the amount of net debt attributable to each person resident in the province. The province's net debt per capita continued to increase which indicates net debt is growing at a faster rate than the population.

7.18 Exhibit 7.4 shows the province's net debt per capita has increased by 6.8 percent to \$14,043 at March 31, 2013. Based on information in their Public Accounts, Nova Scotia's net debt per capita has increased by 4.2 percent to \$14,708 and New Brunswick's has increased by 9.1 percent to \$14,623 at year-end.

7. Indicators of Financial Condition

EXHIBIT 7.4 NET DEBT PER CAPITA YEAR ENDED MARCH 31



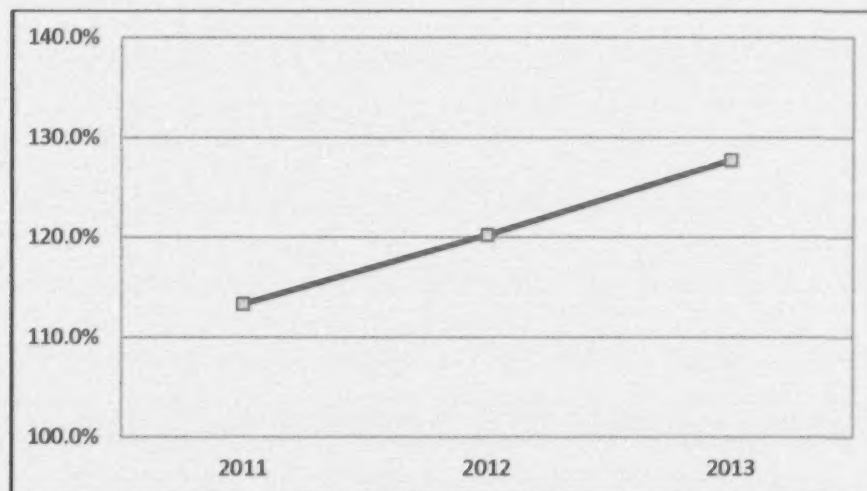
	2011 Restated	2012 Restated	2013
Net Debt Per Capita	\$12,229	\$13,144	\$14,043

Net Debt to Total Revenues

7.19 Exhibit 7.5 depicts the ratio of net debt to total revenues. This ratio is a measure of the future revenue which will be required to pay for past transactions. An increasing ratio indicates more time will be needed to repay the debt. At March 31, 2013, the province's net debt to total revenues ratio continued to increase and was 127.7 percent. In comparison, Nova Scotia's ratio was 138.1 percent (2012 - 137.1 percent) and New Brunswick's was 142.1 percent (2012 - 129.7 percent) at year-end.

7. Indicators of Financial Condition

EXHIBIT 7.5
NET DEBT TO TOTAL REVENUES
YEAR ENDED MARCH 31

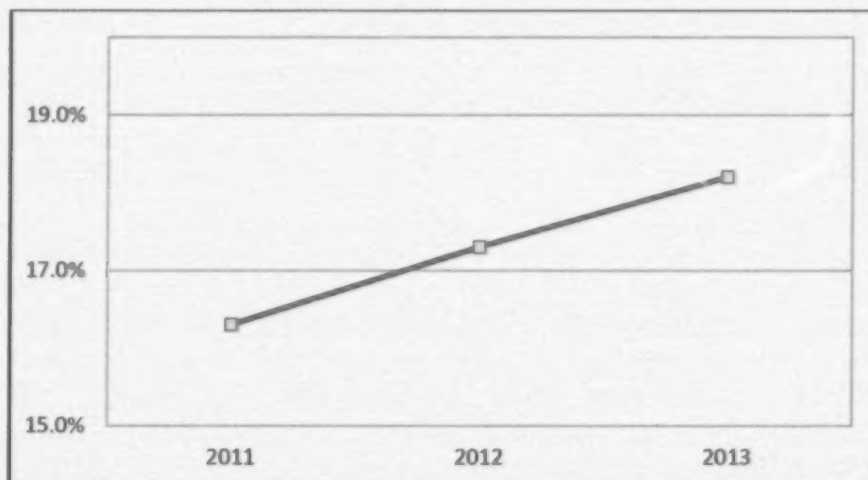


	2011 Restated	2012 Restated	2013
Net Debt to Total Revenues	113.3%	120.2%	127.7%

Accumulated Deficit to GDP

7.20 The accumulated deficit to GDP measure indicates the extent current and past revenues have been insufficient to cover annual costs. **Exhibit 7.6** indicates the province's accumulated deficit to GDP continued to increase and was 18.2 percent at March 31, 2013. Nova Scotia's was 22.3 percent (2012 - 22.1 percent) and New Brunswick's was 8.6 percent (2012 - 7.5 percent).

EXHIBIT 7.6
ACCUMULATED DEFICIT AS A PERCENTAGE OF
PROVINCIAL GDP
YEAR ENDED MARCH 31



	2011 Restated	2012 Restated	2013
Accumulated Deficit to GDP	16.3%	17.3%	18.2%

FLEXIBILITY

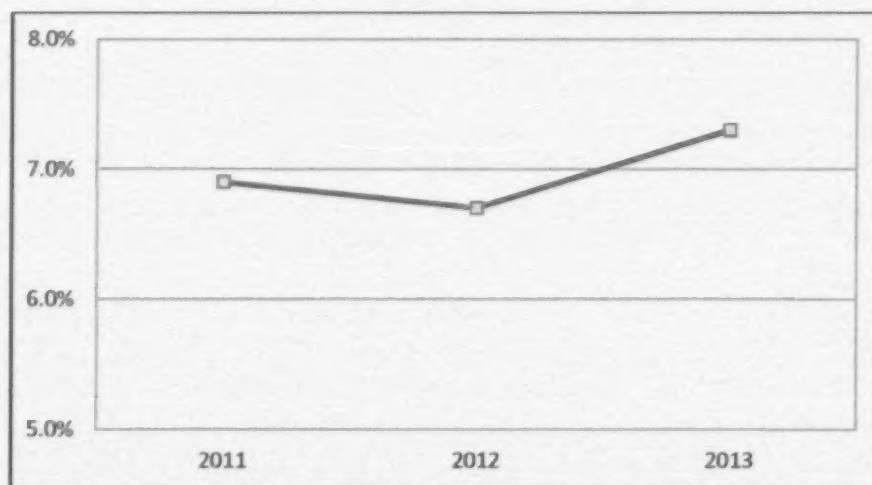
7.21 Government's flexibility is the degree to which it can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt. A government meets the test of flexibility when it can respond to changing economic conditions, such as a recession or higher interest rates, without making substantial changes to the way it operates.

7.22 Flexibility provides insight into how a government manages its finances. A government that increases its current borrowing reduces its future flexibility to respond when adverse economic circumstances develop. Similarly, increasing taxation or user fees reduces its ability to do so in the future as a government approaches the limit that citizens and businesses can or are willing to bear.

*Interest Costs to
Total Revenues*

7.23 One measure of a government's flexibility is the interest cost as a percentage of total revenues as shown in **Exhibit 7.7**. This is sometimes referred to as the "interest bite." This indicator illustrates the extent to which past borrowing decisions constrain a government's ability to provide programs and services in the future.

EXHIBIT 7.7
INTEREST COSTS AS A PERCENTAGE OF TOTAL REVENUES
YEAR ENDED MARCH 31



	2011 Restated	2012 Restated	2013
Interest Costs to Total Revenues	6.9%	6.7%	7.3%

7.24 At March 31, 2013, government net borrowings totaled approximately \$2.4 billion. Interest costs totaled \$116.2 million during 2012-13. This means that the first \$116.2 million of revenue must be used to pay interest costs and is unavailable for government programs and services. Interest costs increased by \$9.7 million from 2011-12 due primarily to interest costs on new promissory notes related to pension funds and refinancing short-term borrowings into long-term debentures.

7.25 Even though the amount of government borrowings has significantly increased, total interest costs have not due to low interest rates. The province continued to mitigate its short-term exposure to interest rate changes by locking in variable rate debt to fixed rate debt with

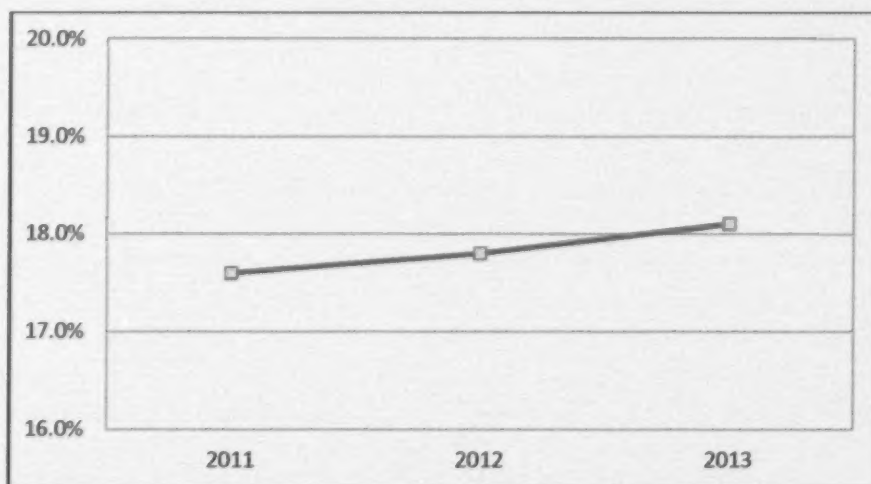
7. Indicators of Financial Condition

terms as high as forty years. For recent debentures, the province has not established sinking funds to retire the debt at maturity. This shifts the interest rate risk to the future when the debt becomes due and the province may need to refinance at higher rates.

Own Source Revenues to GDP

7.26 Exhibit 7.8 indicates the change in own source revenues as a percentage of GDP. This indicator is important as it indicates the extent to which government is taking money out of the local economy through taxation, user fees, or other charges. An increasing ratio indicates a growing tax burden. The percentage has been increasing since 2011 and was 18.1 percent at March 31, 2013.

EXHIBIT 7.8
OWN SOURCE REVENUES AS A PERCENTAGE OF GDP
YEAR ENDED MARCH 31



	2011	2012	2013
Own Source Revenues to GDP	17.6%	17.8%	18.1%

7.27 According to information in their Public Accounts, Nova Scotia's own source revenues to GDP was 18.0 percent (2012 - 17.8 percent) and New Brunswick's was 14.7 percent (2012 - 15.3 percent) at March 31, 2013.

VULNERABILITY

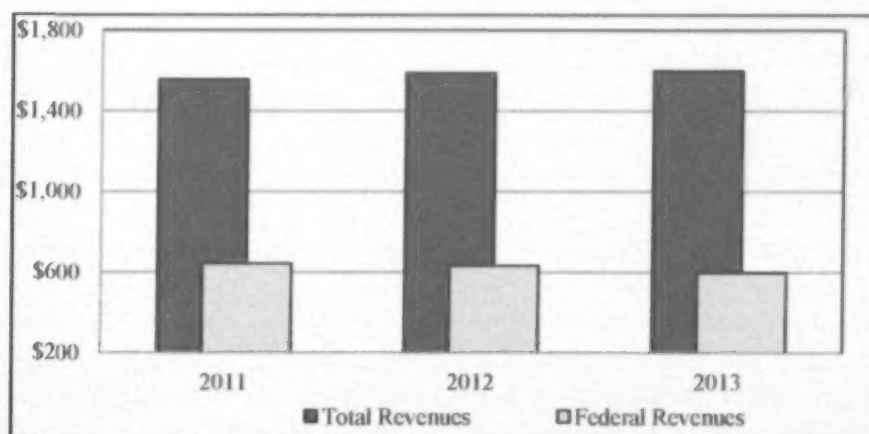
7.28 Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence. It provides insight into the risk the province is exposed to that could affect its ability to meet existing service commitments to the public and financial commitments to creditors, employees, and others.

*Federal
Revenues to
Total Revenues*

7.29 Last year, we noted federal revenues as a percentage of total revenues had increased over a ten year period. A decreasing ratio indicates less vulnerability. In 2012-13, the federal government provided 37.3 percent of the province's total revenues or \$595.4 million.

Exhibit 7.9 shows the declining trend in federal revenues as a percentage of total revenues for the last three years. Nova Scotia's was 32.3 percent (2012 - 32.6 percent) and New Brunswick's was 38.6 percent (2012 - 36.8 percent) at year-end.

EXHIBIT 7.9
FEDERAL REVENUES TO TOTAL REVENUES
YEAR ENDED MARCH 31
(Millions)



	2011 Restated	2012 Restated	2013
Provincial Revenues	\$ 913.2	\$ 956.4	\$1,001.6
Federal Revenues	\$ 641.4	\$ 630.7	\$ 595.4
Total Revenues	\$1,554.6	\$1,587.1	\$1,597.0
Provincial Revenues as Percent of Total	58.7%	60.3%	62.7%
Federal Revenues as Percent of Total	41.3%	39.7%	37.3%

SUMMARY

7.30 It is important for members of the Legislative Assembly and the public to have a regular update on the province's finances to assist in understanding the long-term implications of budget and policy decisions. These indicators provide useful insight to assess the province's financial condition. Continued monitoring of key trends and consideration of their impact is important in assessing the sustainability of current programs and services. This information will assist members of the Legislature and the public in holding government accountable.

GLOSSARY

Annual surplus or deficit is the difference between a government's revenues and expenses. This measure shows the extent to which revenues raised in the year were sufficient to cover expenses in that year.

Total debt is the amount owed by government. Government's debt includes outstanding debentures, pension obligations, and other payables.

Financial assets are cash and other assets which could provide resources to pay liabilities or finance future operations.

Net debt is equal to the difference between the government's total liabilities and its financial assets.

Non-financial assets are tangible capital assets such as buildings, roads, and equipment as well as prepaid expenses and inventories. The book value of tangible capital assets increases as they are acquired and is reduced over a period of time through amortization. These assets do not normally provide resources to discharge liabilities.

Accumulated deficit represents the province's liabilities net of the assets the province has acquired; both financial and non-financial. It is the sum of all surpluses and deficits incurred over the years.

Interest charged on borrowings is the amount required to service the debt and must be taken from revenues before any expenditure can be made on government programs and services.

Gross domestic product (GDP) is a measure of the value of all goods and services produced in a jurisdiction in a given period. The province's GDP is measured and reported by Statistics Canada.

Nominal gross domestic product is gross domestic product that has not been adjusted for inflation.

Tax burden refers to the value of economic resources withdrawn from citizens and businesses through taxation and/or user fees.

8. PUBLIC ACCOUNTS

BACKGROUND

8.1 Overall responsibility for the management of the province's finances rests with Executive Council. The *Financial Administration Act* provides the authority for Executive Council to act through Treasury Board to fulfill its fiscal management responsibility. The Act further delegates general responsibility for the management and direction of the province's finances to the Minister of Finance, Energy and Municipal Affairs. Responsibilities of the minister include the operation of the department, all activities related to the Operating Fund, and supervision, control, and direction of all financial matters of the province, unless specifically assigned to another minister or board.

8.2 Management of the province's finances is a significant responsibility that affects every resident in the short and long-term. With this responsibility comes the need for accountability.

8.3 The Legislative Assembly, including its Public Accounts Committee, plays a primary role in holding government accountable. To fulfill their oversight role, members of the Legislative Assembly, as well as the public, need sufficient and reliable financial information on the financial position and operating results of the province. A primary source of information used by the Legislative Assembly is the Public Accounts. The 2012-13 Public Accounts consist of three volumes: Volume I contains the province's audited consolidated financial statements; Volume II contains the unaudited Operating Fund financial statements and details of revenues and expenditures of the Operating Fund; and Volume III includes the audited financial statements of agencies, boards, and Crown corporations. Our comments in this chapter are limited to Volume I of the Public Accounts.

8.4 The *Financial Administration Act* requires the Comptroller to prepare the Public Accounts and the Minister of Finance, Energy and Municipal Affairs to annually table the Public Accounts in the Legislative Assembly by January 31 of the year following the fiscal year-end. According to the Act, the Public Accounts must contain the financial statements of the Operating Fund and the consolidated financial

statements of the province. The consolidated financial statements provide the most complete information about the financial position and operating results of the province as they consolidate the accounts of the Operating Fund with those of the agencies, boards, and Crown corporations owned or controlled by the province.

8.5 The information and decisions related to and reflected in the province's consolidated financial statements are the responsibility of the government.

OBJECTIVES AND SCOPE

8.6 The *Audit Act* provides the mandate for the Auditor General to examine and report on the use and control of public funds and resources entrusted to departments, Crown corporations, and agencies. Section 16 of the Act requires the Auditor General to annually audit the province's consolidated financial statements and provide an opinion as to whether the statements are fairly presented.

8.7 Under Section 17 of the Act, the Auditor General is not required to audit or report on the accounts of any agency of government where another auditor has been designated to audit its accounts. In these instances, the Auditor General considers the audit work performed by the external auditor of these entities when performing the audit of the province's consolidated financial statements.

8.8 In the following sections, we provide our audit opinion as well as observations and recommendations arising from our audit of the province's consolidated financial statements for the fiscal year ended March 31, 2013, and our review of Volume I of the Public Accounts. In addition, our reporting considers the results of financial statement audits of entities included in the province's consolidated financial statements. Information to address other reporting requirements under the *Audit Act* is also provided.

AUDIT OPINION

8.9 Preparation of the province's consolidated financial statements is the responsibility of the Comptroller in the Department of Finance, Energy

and Municipal Affairs. The Auditor General is responsible to express an opinion as to whether the province's consolidated financial statements are fairly presented in accordance with the basis of accounting disclosed in Note 2 to the consolidated financial statements, which is Canadian public sector accounting standards. Our audit was carried out in accordance with Canadian auditing standards and on January 24, 2014, an unqualified audit opinion on the province's consolidated financial statements was issued.

OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

8.10 Volume I of the Public Accounts is a core element of the province's external reporting and provides an opportunity to integrate and accumulate key information about government operations, financial condition, and other relevant information. It is a document that has the potential to provide one of the most complete reports on government's management of the province's finances and its stewardship over those resources. Such information can assist members of the Legislative Assembly and the public in holding government accountable.

8.11 The Public Sector Accounting Board's Statement of Recommended Practice suggests that government financial statements be accompanied by a financial statement discussion and analysis. The main objective in providing this information is to clearly explain and highlight information underlying the financial statements. In recent years, we concluded there is a need to improve the information in the financial statement discussion and analysis section of the Public Accounts Volume I and we made a number of suggestions for improvement. Suggested improvements include:

- increased use of trend analysis to include items such as annual surplus/deficit, net debt, revenues, expenses, and cash flows;
- expanded variance analysis and explanation on budget to actual results for the current year as well as current year results to prior year results;
- discussion of the economy in which the financial results occurred;
- increased use of comparisons to other jurisdictions; and
- a discussion of known significant risks and uncertainties.

Recommendation

8.12 The financial statement discussion and analysis included in Volume I of the Public Accounts should be improved to expand on and explain information included in the consolidated financial statements to assist users in understanding and evaluating the financial position and changes in the financial position of the province.

**TIMELY
FINANCIAL
STATEMENTS
AND ANNUAL
REPORTS**

8.13 In order for information to be useful for accountability and decision making purposes, it is important that members of the Legislative Assembly and the public have it before it loses its capacity to influence their decisions. Last year, Volume I of the Public Accounts was released January 4, 2013. For the year ended March 31, 2013, the Public Accounts were released January 31, 2014. Prince Edward Island was the last province to release its 2013 Public Accounts. The delay in completing the consolidated financial statements was due primarily to client audit readiness caused by a number of challenges such as pensions and other retirement obligations, restatements, accounting changes, and consolidation issues.

8.14 The *Financial Administration Act* requires reporting entities to provide audited financial statements within 90 days of their year-end and an annual report within six months of their year-end. Consistent with prior periods, there were some agencies, boards, and Crown corporations which did not meet these deadlines; however, there was some improvement in the timeliness of financial statements. Delays in the completion of entity financial statements also contributed to issues regarding the timeliness of annual reports.

8.15 There were audit staffing challenges which contributed to the timing of the completion of certain financial statements. We will continue to work with the Office of the Comptroller and management of the entities we audit to improve reporting timelines and to address significant issues on a timely basis.

**PENSION
OBLIGATIONS**

8.16 Over the past few years, public sector pension plans have received considerable attention mainly due to the increased level of unfunded pension obligations. **Exhibit 8.1** shows the province's gross pension obligation and net pension assets/obligations for the past five years. The

8. Public Accounts

exhibit includes both funded and unfunded pension plans. The gross pension obligation has increased by approximately \$535.4 million or 33.5 percent since 2009 while plan assets have increased by \$720.4 million or 62.2 percent over the same period. The increase in plan assets includes all employee and employer contributions as well as plan investment earnings.

8.17 Pension obligations are based on full actuarial accounting valuations completed every three years with these estimates updated by the province during the interim periods. Full actuarial valuations for all pension plans were completed April 1, 2011.

EXHIBIT 8.1 NET PENSION ASSETS/OBLIGATIONS YEAR ENDED MARCH 31 (Millions)

	2013	2012 Restated	2011	2010	2009
Gross pension obligations	\$(2,132.0)	\$(1,898.1)	\$(1,782.6)	\$(1,631.1)	\$(1,596.6)
Pension fund assets	<u>1,878.1</u>	<u>1,527.2</u>	<u>1,527.8</u>	<u>1,408.4</u>	<u>1,157.7</u>
Unfunded pension obligation	(253.9)	(370.9)	(254.8)	(222.7)	(438.9)
Unamortized net losses	<u>433.8</u>	<u>355.0</u>	<u>279.3</u>	<u>270.4</u>	<u>471.2</u>
Net pension assets (obligation)	<u>\$ 179.9</u>	<u>\$ (15.9)</u>	<u>\$ 24.5</u>	<u>\$ 47.7</u>	<u>\$ 32.3</u>

Pension Assumptions

8.18 Last year, we provided information to help readers understand pension obligations. The key message was that pension obligations are estimates which are highly sensitive to assumptions. Assumptions are required to be management's best estimate and are assessed by actuaries for reasonableness. If an assumption is within an acceptable range, it is generally considered to be reasonable. Key assumptions for pension plans include the rate of return on plan assets, the discount rate, cost of living increases, salary escalation, retirement age, and mortality.

8.19 Changes in assumptions such as the discount rate can cause dramatic changes in the reported gross pension obligation. For example, at March 31, 2013, the reduction in the Civil Service Superannuation Fund discount rate from 7.37 percent to 6.86 percent increased the gross pension obligation by approximately \$90.2 million.

8.20 Our work on pension obligations for the three funded plans noted the province has been on the upper limit of the acceptable range for the discount rate assumption. This is important to understand because the closer the discount rate assumption is to the upper end of a range, the lower the estimated gross pension obligation and vice versa.

8.21 The gross pension obligation is important but the funded position of the pension plan must also be considered. The province has three funded pension plans: the Civil Service Superannuation Fund (CSSF), the Teachers Superannuation Fund (TSF), and the Pension Plan for Members of the Legislative Assembly (MLA). The assets of these plans are held in the Prince Edward Island Master Trust.

8.22 The province also has four unfunded pension plans: the MLA Supplemental Plan, the Senior Compensation Pension Plan, the Judges Pension Plan (Old), and the Judges Pension Plan (New). These unfunded plans do not require beneficiaries to contribute to the plan. Benefits are paid by the province out of the Operating Fund as payments become due. The total paid for the year ended March 31, 2013, for these four plans was approximately \$1.2 million and the gross unfunded pension obligation was approximately \$38.2 million at year-end.

Pension Contributions

8.23 The objective of a pension plan is to provide income to individuals when they retire. To do this, individuals and the plan sponsor typically contribute to the plan. Contributions plus earnings on plan assets are designed to be sufficient to pay retirement benefits as prescribed by the plan text when the individual retires. In principle, contribution rates are established based on expected plan asset earnings to ensure sufficient funds are available to pay for the current service cost, that is, the amount of pension benefit earned each year.

8.24 **Exhibit 8.2** notes that contributions for the CSSF and the TSF were in excess of the amount required to fund the current service cost. For the year ended March 31, 2013, CSSF contributions were approximately 22.7 percent higher than the amount required to fund the current service cost. At its year-end, excess contributions for the TSF were approximately 33.3 percent higher. These excess contributions continued to have a positive impact on the funded position of these pension plans. However, because investment income was lower than interest charges and

8. Public Accounts

payments to retirees, the unfunded position of these plans continued to increase.

EXHIBIT 8.2 CSSF AND TSF PENSION FUNDS (Millions)

	2013	2012*	2011	2010	2009
Civil Service Superannuation Fund Year Ended March 31					
Investment income - net	\$ 28	\$ 28	\$ 24	\$ 23	\$ 25
Benefits paid	(53)	(48)	(44)	(41)	(38)
Interest costs on unfunded obligation	(4)	(11)	(9)	(14)	(3)
Shortfall	(29)	(31)	(29)	(32)	(16)
Current employee contributions	27	25	24	23	22
Current employer contributions	27	25	24	23	22
	54	50	48	46	44
Current service cost	(44)	(42)	(35)	(31)	(32)
Excess annual contributions	10	8	13	15	12
Net Shortfall	\$(19)	\$(23)	\$(16)	\$(17)	\$(4)
Teachers' Superannuation Fund Year Ended June 30					
Investment income - net	\$ 15	\$ 16	\$ 15	\$ 13	\$ 15
Benefits paid	(42)	(40)	(39)	(38)	(36)
Interest costs on unfunded obligation**	(3)	(7)	(6)	(11)	(5)
Shortfall	(30)	(31)	(30)	(36)	(26)
Current employee contributions	10	9	9	8	8
Current employer contributions	10	9	9	8	8
	20	18	18	16	16
Current service cost**	(15)	(14)	(12)	(11)	(12)
Excess annual contributions	5	4	6	5	4
Net Shortfall	\$(25)	\$(27)	\$(24)	\$(31)	\$(22)

*updated estimates.

**For the year ended March 31

8.25 On January 1, 2013, CSSF and TSF plan amendments took effect which increased employee contribution rates. The estimated average increase in employee contributions was approximately 12.6 percent for the CSSF and 13.3 percent for the TSF. Employee contributions are matched by the province. The change in contribution rates was estimated to annually contribute an additional \$6.3 million to the CSSF and \$2.4 million to the TSF.

*Plan Amendments
January 1, 2014*

8.26 Subsequent to March 31, 2013, the province passed legislation to further amend the CSSF and TSF pension plans. The amendments affect all members of these plans. For active members, the benefit formula is changed to reduce the amount of benefit earned from an average of the best three years salary for CSSF and best five years for TSF to a benefit formula based on indexed career average salary. After the 2016 calendar year, indexing for all members will be dependent on the funded level of the plan. For active members, future changes in contributions rates will also be determined by the funded level of the plans. The effective date of the plan amendments is January 1, 2014. Based on March 31, 2013, plan assumptions, these plan amendments will further increase excess contributions made by active members. The notes to the province's 2012-13 consolidated financial statements summarize these plan amendments.

8.27 Based on the gross pension obligation at March 31, 2013, the province estimated the impact of the January 1, 2014 plan amendment for CSSF to be a decrease in the gross pension obligation of 23 to 29 percent or \$313.7 million to \$395.6 million. For the TSF, the estimated decrease in the gross pension obligation is 15 to 19 percent or \$106.9 million to \$135.4 million. In total, the estimated reduction in benefits to retirees and active members is between \$420.6 million and \$531.0 million for these two plans.

8.28 The funded level of the plans in the future will affect contribution rates and the amount of pension benefit payments for all members. Pension plan assumptions impact the funded level of the plans. It is important for all members of the CSSF and the TSF to understand the pension assumption selection process and the context in which assumptions are selected.

ACCOUNTING POLICIES

8.29 During our audit for the year ended March 31, 2013, support for key pension assumptions was a significant issue. The Comptroller's Office is working to ensure adequate support for key pension assumptions is available on a timely basis for future audits.

8.30 As part of our audit, we are required to assess the accounting policies used to prepare the province's consolidated financial statements. The consolidated financial statements are prepared and presented in accordance with Canadian public sector accounting standards as prescribed by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants).

8.31 Last year, we noted non-compliance with public sector accounting standards which require significant accumulating but non-vesting sick leave to be recorded, significant entities controlled by government to be consolidated, and environmentally contaminated sites be assessed and estimated remediation costs recorded, if significant. Our audit of the 2012-13 consolidated financial statements noted progress had been made in addressing these issues.

8.32 *Sick Leave* - In prior periods, we recommended that accumulating but non-vesting sick leave be subject to an actuarial valuation. In the current period, our recommendation was implemented and the consolidated financial statements were adjusted.

8.33 *Government Reporting Entity* - Last year, we reviewed an assessment prepared by the Comptroller's Office on whether or not Holland College was controlled by government. The assessment concluded Holland College met the criteria for control as outlined in the public sector accounting standard. The province is in the process of making legislative changes which will remove Holland College from the government reporting entity.

8.34 *Environmental Contamination* - At March 31, 2012, the province's consolidated financial statements included a \$350,000 provision for the remediation of properties previously used as community dumps and landfill sites. At March 31, 2013, the province recorded an

additional provision of \$1.5 million related to these sites. We were advised that the province intends to further review and assess the various sites.

Recommendation

8.35 Environmentally contaminated sites should be assessed and estimated remediation costs recorded, if significant.

BUDGETS

8.36 Although we do not audit the province's budget, current Canadian public sector accounting standards require budget information to be presented in the province's consolidated financial statements. We again noted that the province does not prepare its budget on the same basis as that used to prepare its consolidated financial statements. More specifically, the budget does not include each consolidated entity's revenues and expenses on a line by line basis. The budgets of certain entities are grouped and reported on a net basis.

8.37 For the year ended March 31, 2013, budget amounts presented in the legislature as detailed in the Estimates of Revenue and Expenditures are approximately \$92.2 million less than the budgeted revenues and expenses presented in the province's consolidated financial statements.

8.38 Government business enterprises are also budgeted on a net basis and the details of each entity's revenues and expenses are not disclosed in the budget. For the year ended March 31, 2013, government business enterprises had revenue of \$145.4 million (2012 - \$147.6 million) and expenses of \$96.9 million (2012 - \$101.4 million).

8.39 The absence of detailed budget information of government business enterprises and government organizations impairs the ability of the members of the Legislative Assembly to assess and debate their operations. Further, detailed budget information enhances the accountability process.

Recommendation

8.40 Detailed budget information on significant agencies, boards, and Crown corporations should be provided to the Legislature as part of the budget approval process.

**TANGIBLE
CAPITAL
ASSETS**

8.41 Last year, we noted the province was reviewing its tangible capital asset policy. Our review of the revised policy noted thresholds were lowered for the capitalization of certain tangible capital assets. The consolidated financial statements were restated to reflect this change.

8.42 Our audit work on capital additions and the restatement for the tangible capital asset policy change identified items which in our opinion, would be more appropriately classified as repairs and maintenance expenses. We also noted errors in supporting schedules. These errors were not material.

Recommendation

8.43 Capital additions should be reviewed by the Office of the Comptroller to ensure expenditures are properly classified and tangible capital asset listings are complete and accurate.

**COMMITMENTS
AND
CONTRACTUAL
OBLIGATIONS**

8.44 Commitments and contractual obligations have a significant impact on future financial resources. At March 31, 2013, contractual obligations and commitments were in excess of \$825.6 million. Included in this amount is \$140.6 million for Holland College and the University of Prince Edward Island to service the debt incurred by these organizations related to capital additions.

8.45 In prior periods, we identified the need to improve tracking and disclosure of contractual obligations and commitments. We noted some progress had been made in 2012-13; however, additional work is still required. Currently, disclosures do not generally include contractual obligations with annual payments less than \$100,000 and we noted errors in the schedules provided. During the year, Treasury Board initiated a requirement to track and report all contractual obligations greater than or equal to \$25,000. We encourage the Comptroller's Office to continue its work to improve its tracking and disclosure of commitments and contractual obligations.

**GUARANTEED
DEBT**

8.46 Exhibit 8.3 summarizes the components of guaranteed debt for the past five years as reported in the Guaranteed Debt schedule in the province's consolidated financial statements. The amount of debt guaranteed by the province continues to increase. At year-end, guaranteed debt was \$279.9 million, up from \$266.7 million at March 31, 2012.

EXHIBIT 8.3
GUARANTEED DEBT
YEAR ENDED MARCH 31
(Thousands)

	2013	2012	2011	2010	2009
Lines of credit/demand loans	\$ 32,607	\$ 54	\$ 49	\$ 40	\$ 46
Debentures/capital loans	245,886	264,623	249,805	251,335	238,607
Crown corporations and agencies	<u>1,378</u>	<u>1,980</u>	<u>2,853</u>	<u>3,346</u>	<u>2,713</u>
Total guaranteed debt	<u>\$279,871</u>	<u>\$266,657</u>	<u>\$252,707</u>	<u>\$254,721</u>	<u>\$241,366</u>

8.47 The province also has a guarantee related to the Credit Union Deposit Insurance Corporation (CUDIC) which is not included in **Exhibit 8.3**. The CUDIC provides deposit insurance coverage on insurable deposits in each of the ten credit unions in the province. At December 31, 2012, insurable deposits totaled \$647.1 million (2011 - \$620.8 million).

8.48 The amount of debt guaranteed by the province continues to represent a significant level of financial risk which needs to be monitored on a regular basis to ensure the province's financial exposure is minimized. Increasing guaranteed debt increases financial risk and can negatively affect the province's financial condition.

**MANAGEMENT
LETTERS**

8.49 As part of our audit of the consolidated financial statements, we review management letters issued to agencies, boards, and Crown corporations. As in prior periods, our review noted issues related to compliance with Treasury Board policies, the need to improve certain internal controls, and audit readiness issues. Monitoring and tracking of action taken is important to ensure any issues raised are addressed.

Recommendation

8.50 A process should be implemented to track action taken on recommendations arising from financial statement audits of agencies, boards, and Crown corporations.

OTHER REPORTING REQUIREMENTS

CANCELLATION
OR DISCHARGE
OF DEBT

8.51 Section 16 of the *Audit Act* requires the Auditor General to report the total amount of any claims, debts, or monies due to the province that have been discharged, cancelled, and/or released under Section 26 of the *Financial Administration Act*. The total amount owed by third parties to the province and discharged, cancelled, released, and/or written-off was \$1.7 million in 2012-13 and is detailed in **Exhibit 8.4**.

EXHIBIT 8.4
AMOUNTS CANCELLED OR DISCHARGED
YEAR ENDED MARCH 31, 2013

	Section 26 (1)	Section 26.1 (1)
<i>Revenue Tax Act</i>	\$ -	\$ 468,209
<i>Social Assistance Act</i>	-	410,700
<i>Long-Term Care Subsidization Act</i>	154,674	-
<i>Real Property Tax Act</i>	97,754	-
Health PEI	-	485,437
Crown Building Corporation	8,688	-
Department of Community Services and Seniors	-	28,794
Department of Transportation and Infrastructure Renewal	-	754
	<u>\$261,116</u>	<u>\$1,393,894</u>

SURPLUS
(DEFICIT)
AGENCIES,
BOARDS, AND
CROWN
CORPORATIONS

8.52 Section 16 of the *Audit Act* also requires the Auditor General to include information in the Annual Report on deficits of agencies, boards, and Crown corporations not covered by appropriations in the year in which they have been incurred and any surpluses not paid into the Operating Fund in the year in which they were earned. In **Exhibit 8.5**, we have included the surplus or deficit for each entity at March 31, 2013.

EXHIBIT 8.5
SURPLUS (DEFICIT)
AGENCIES, BOARDS, AND CROWN CORPORATIONS
YEAR ENDED MARCH 31, 2013

	Annual Surplus (Deficit)
Charlottetown Area Development Corporation*	\$ 103,726
English Language School Board	23,419
Finance PEI	11,496,979
French Language School Board	20,148
Health PEI	13,924,378
Innovation PEI	60,350
Island Investment Development Inc.	16,631,784
Island Waste Management Corporation	86,401
PEI Advisory Council on the Status of Women	59,010
PEI Agricultural Insurance Corporation	(1,459,429)
PEI Crown Building Corporation	(7,588)
PEI Energy Corporation	3,467,097
PEI Grain Elevators Corporation (July 31, 2012)	63,409
PEI Human Rights Commission	14,284
PEI Self Insurance and Risk Management Fund	996,430
PEI Student Financial Assistance Corporation	317
PEI 2014 Inc.	1,206,148
Summerside Regional Development Corporation*	\$ (47,541)

*Includes the provincial portion only

MANAGEMENT RESPONSE

8.53 Our observations and recommendations have been discussed with management.

9. APPROPRIATIONS AND SPECIAL WARRANTS

AUDIT PROCESS

9.1 A key financial control within the public sector is the approval of spending authority. Government's spending authority is provided through legislation which is approved by members of the Legislative Assembly. This is important because it sets the financial parameters for which government operates and for which it is held accountable. Spending authority is provided annually by an appropriation act. Authority to exceed the initial amount set by an appropriation act is provided by a special warrant or transfer of a previously appropriated amount.

9.2 Unlike appropriation acts which require the approval of the Legislative Assembly, special warrants must be approved by the Lieutenant Governor in Council acting on the advice and recommendation of Executive Council. Special warrants are used when the Legislative Assembly is not in session and funds are needed for operations. Appropriation transfers are generally approved by Treasury Board.

9.3 For the fiscal year ended March 31, 2013, the *Appropriation Act (Current Expenditures) 2012* authorized \$1,538.8 million in current expenditures while the *Appropriation Act (Capital Expenditures) 2012* authorized capital spending of \$101.2 million. Special warrants accounted for an additional \$11.7 million in authorized spending and consisted of \$8.1 million for operating expenditures and \$3.6 million for capital expenditures. For the year ended March 31, 2013, \$105,000 was sequestered from an operating appropriation.

APPROPRIATIONS

9.4 The *Audit Act* requires the Auditor General to "provide an opinion on whether the expenditures that were authorized by the annual appropriation act, or by special warrant, were expended for the purpose for which they were appropriated." Our audit of appropriations and special warrants for the year ended March 31, 2013, concluded amounts were expended for the purpose for which they were appropriated.

9. Appropriations and Special Warrants

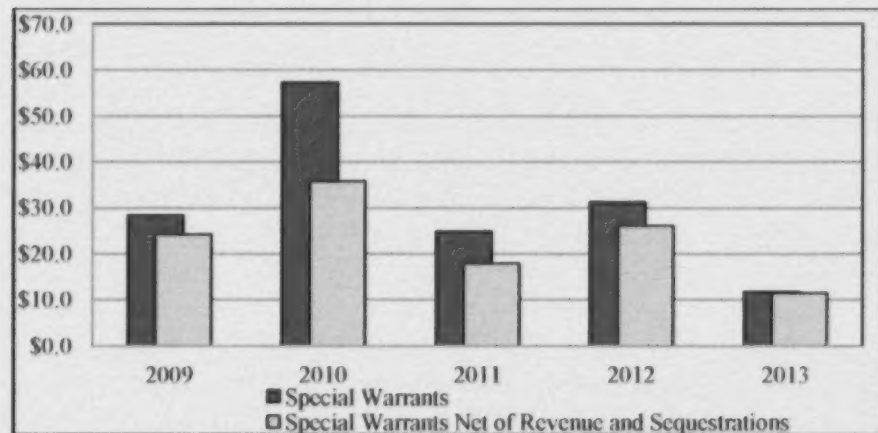
9.5 In addition to the information provided in this chapter, readers should also consider the province's consolidated financial statements and our independent auditor's report on those statements.

9.6 Included as **Schedule A** in our Annual Report is a comparison of appropriations to actual expenditures in accordance with the classifications in the 2012 appropriation acts.

SPECIAL WARRANTS

9.7 In accordance with the requirements of the *Audit Act*, **Schedule B** lists, in detail, all appropriations made by special warrant and their purpose. For the year ended March 31, 2013, special warrants were partially offset by an increase in revenue of \$77,200 and a sequestration of \$105,000 from a previously authorized appropriation resulting in a net increase in spending authority of \$11.5 million. **Exhibit 9.1** depicts the total amount of special warrants and special warrants net of revenue and sequestrations for each of the last five years.

EXHIBIT 9.1
SPECIAL WARRANTS
YEAR ENDED MARCH 31
(Millions)



	2009	2010	2011	2012	2013
Total Special Warrants	\$28.3	\$57.3	\$24.8	\$31.2	\$11.7
Revenue and Sequestrations	4.1	21.6	7.0	5.2	0.2
Special Warrants Net of Revenue and Sequestrations	\$24.2	\$35.7	\$17.8	\$26.0	\$11.5

9. Appropriations and Special Warrants

Delay in Issuing Special Warrants

9.8 Approval to incur expenses is a primary control in any disbursement process. The *Financial Administration Act* states expenditures should not be incurred unless provided for by an appropriation. When an appropriation is expected to be exceeded, additional spending authority should be in place prior to the expense being incurred. Consistent with prior years, our current audit of appropriations identified instances where the approval was after the fact. That is, the original budget appropriation had been exceeded and the statutory authority for the additional expenditures was not in place prior to the expenditure being incurred.

9.9 One department had exceeded its authorized current operating appropriation and two departments had exceeded their capital appropriation. Special warrants were subsequently issued to address the over expenditures.

Expenditure Controls

9.10 When spending authority has been exceeded, the province's financial system will not process a payment until the additional spending authority has been approved and entered into the financial system.

9.11 Our testing identified two journal entries totalling \$2.1 million which reduced the expenditure balance in the accounting system thereby creating available capital spending authority. These entries allowed payments to be processed. Although special warrants were subsequently issued for these expenditures, the additional spending authority should have been in place prior to the expenditures being incurred.

Recommendation

9.12 **Legislative spending authority should be in place prior to expenditures being incurred.**

Capital Budget

9.13 A primary reason for establishing a budget is to create a financial control so that management can monitor its expenditures on a regular basis to ensure it is not exceeding its spending authority. The approved capital budget is posted to the province's financial system and normally, if an appropriation has been exceeded, it would be identifiable by a comparison of the budget to actual expenditure account throughout the year. As in prior periods, capital and non-capital transactions are posted to the same

9. Appropriations and Special Warrants

account and then reallocated at year-end. As a result, budget to actual comparisons are not readily available.

9.14 The Department of Transportation and Infrastructure Renewal had an operating and a capital budget with an appropriation for bridge maintenance. There were expenditures charged against the capital appropriation which were not capital in nature. The amounts were not material in comparison to the total appropriation.

9.15 This issue has been noted in previous years and improvements have been made. We encourage the department to review its accounting and budgeting processes to ensure all expenditures are properly classified.

MANAGEMENT RESPONSE

9.16 We have discussed our findings and recommendation with management.

UPDATE ON PREVIOUS RECOMMENDATIONS



10. UPDATE ON PREVIOUS RECOMMENDATIONS

INTRODUCTION

10.1 Each year, we include information in our Annual Report on the status of implementation of the recommendations arising from our previous special audits and examinations. Our purpose is to promote improved accountability by providing this information so that members of the Legislative Assembly and the public can assess the progress government is making in addressing these recommendations.

10.2 Our practice is to request updated information from senior management of the department, Crown corporation, or agency responsible for the subject matter of the audit. We continue to follow up on recommendations until management reports the recommendations have been addressed. We review each response and obtain clarification where necessary, but we do not conduct audit work on management's response.

10.3 Based on the subject matter being addressed, the complexity of the action required to address the recommendations may vary. In some cases, implementation of a recommendation may require additional time. We are providing the responses from departments, Crown corporations, and agencies indicating action taken as well as action planned.

10. Update on Previous Recommendations

10.4 In this chapter, we present the status of implementation of our recommendations arising from our special audits and examination chapters presented in our 2013 Annual Report, as well as the outstanding recommendations from previous audits as follows:

Year	Chapter Title	Paragraph	Page
2013	Management of Ground Ambulance Services	10.5	109
2013	SkillsPEI	10.6	118
2013	Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement	10.7	122
2012	Long Term Planning and Access - Community Mental Health	10.8	123
2012	Highway Construction	10.9	129
2011	Special Education - Eastern School District	10.10	130
2011	Food Safety	10.11	132
2011	School Maintenance - Western School Board	10.12	133
2010	Security Assessment - Drug Information System	10.13	134
2009	In-Province Physician Payments	10.14	136
2007	PEI Energy Corporation	10.15	139

MANAGEMENT OF GROUND AMBULANCE SERVICES

10.5 Following are the recommendations resulting from our audit of Management of Ground Ambulance Services reported in the 2013 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI as well as the Emergency Medical Services Board.

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.23	Emergency Health Services should initiate legislative amendments to update the board composition of the Emergency Medical Services Board to reflect the current service delivery model.	The <i>Emergency Medical Technician Act</i> and Regulations were proclaimed Sept 1, 2013. These amendments address potential conflict of interest with respect to the Emergency Medical Services (EMS) Board.	No further action required.
3.36	Health PEI should strengthen its medical oversight function by • being more proactive to request the required medical audit reports; • having a sign-off on the review of medical audit reports; • reporting results of reviews to the Emergency Medical Services Board; and • conducting its own medical audits of the service provider's reported compliance with the patient care protocols using a risk-based approach.	A revised medical audit report form including a sign-off by the medical reviewer has been used since the fourth quarter of 2012-13. Medical audit reports from the first three quarters of the 2012-13 fiscal year were presented to the EMS Board on March 26, 2013.	Medical audit reporting will be ongoing in accordance with the contract.

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.41	Emergency Health Services should review the satisfaction survey approach to ensure it meets the contract requirements.	The satisfaction survey was revised and now meets the contracted requirements. In the fall of 2013, approximately 1,200 surveys went to clients of ground ambulance covering the six month period from March to August 2013.	No further action required.
3.42	Emergency Health Services should strengthen its management of complaints to ensure the process complies with Health PEI's <i>Compliments and Complaints</i> policy.	Emergency Health Services (EHS) continues to work with Access and Quality Management to develop a Provincial Safety Management System (PSMS) for monitoring / oversight of all complaints and incidents arising within the ground ambulance program.	Ongoing
3.47	Emergency Health Services should strengthen its oversight of vehicle maintenance to include • comparing the service provider's actual vehicle maintenance to some authoritative source such as the service provider's preventative maintenance program or manufacturer's recommendations; and • documenting the results of the review.	The new <i>Ambulance Services Act</i> includes updated vehicle equipment / safety requirements.	EHS will draft Vehicle and Equipment Standards for Ground Ambulance which will require regulatory amendment in the future.

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.51	Emergency Health Services should implement internal control procedures to assess the completeness and accuracy of Patient Call Report data.	Health Information Management Section was requested by EHS to undertake revisions to the electronic system which will facilitate implementation of this recommendation.	Health Information Management is aware of the request for electronic changes but the challenge will be the compatibility with the existing Clinical Information System.
3.56	Emergency Health Services should strengthen its incident reporting framework to • include a definition of incidents; • streamline the process through the implementation of standardized forms and contacts; and • log and track incidents for analysis and reporting.	EHS has to provide the Access and Quality Management Team with content to develop an appropriate program.	EHS continues to work with Access and Quality Management to develop the Provincial Safety Management System for monitoring / oversight of all complaints / incidents arising within the ground ambulance program.
3.59	Overall, Emergency Health Services should modernize its performance standards for ground ambulance services to reflect a performance management framework that is more in line with industry best practices.	EHS will assess performance standards in other jurisdictions and review Accreditation Canada Standards to ensure any changes align with industry best practices.	Revised standards will become a component of revisions to the existing contract.
3.69	Emergency Health Services should ensure the service provider names Health PEI as an additional insured under the general liability insurance and malpractice insurance as required by the contract terms.	The government of PEI has been listed as an additional insured.	No further action required.

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.70	Emergency Health Services should amend the contract terms to reflect the actual amount of automobile insurance it requires of the service provider.	Noted	To be a component of an amended contract.
3.71	Emergency Health Services should review the annual audited financial statements of the service provider.	EHS will review annual financial statements of the service provider from the 2012-13 fiscal year.	Financial statement review will be ongoing on a regularly scheduled basis.
3.72	For future contractual arrangements, Emergency Health Services should avoid clauses that grant significant extensions early in the initial term of the contract.	Noted	No further action required.
3.73	Pursuant to Treasury Board policy 13.07 - <i>Elements of a Professional Services Contract</i> , Emergency Health Services should amend the contract terms to clearly lay out the payment mechanism for inter-facility transfers.	Noted	To be a component of an amended contract.
3.85	Health PEI should follow Treasury Board policy on delegation of signing authorities. Where exceptions are considered necessary, Health PEI should seek approval of Treasury Board.	Reviewed Treasury Board policy on delegation of signing authorities.	At present, no further action required.
3.86	Emergency Health Services should amend the contract terms to reflect policy changes that impact payments for services.	Noted	To be a component of an amended contract.

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.87	Pursuant to the <i>Financial Administration Act</i> , Emergency Health Services should implement internal control procedures to verify invoices for payment.	Random audits have been conducted to verify correlation of invoices to patient call reports (PCR).	Ongoing monthly review will be conducted as per receipt of invoices and PCRs from the service provider.
3.95	Emergency Health Services should implement internal control procedures to monitor the clause in the contract with the service provider requiring all Emergency Medical Technicians employed have a valid license to practice.	The EMS Board has requested the service provider maintain a record of licenses for all employed EMTs. The service provider complied with the request. Photo license identification has been fully implemented effective April 1, 2013.	Ongoing monitoring.
3.96	The Emergency Medical Services Board should update its policies to accurately reflect the continuing education requirements that are deemed eligible for licensure.	The <i>Emergency Medical Technicians Act</i> came into force on September 1, 2013. The <i>Emergency Medical Technicians Regulations</i> were updated to clarify continuing education requirements for renewal of licenses. The EMS Board maintains proof of continuing education competencies deemed eligible for registration for all licenses issued as of April 1, 2013.	The EMS Board will continue to review continuing education requirements and make any necessary changes in advance of the next renewal of licenses (period of April 1, 2015 to March 31, 2017).

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.97	The Emergency Medical Services Board should update its policies to clearly outline the emergency callout requirements that are deemed eligible for licensure.	The <i>Emergency Medical Technicians Regulations</i> were updated to clarify currency of knowledge and skill requirements for renewal of license. The EMS Board verifies all currency of knowledge and skill requirements prior to the renewal of licenses. All emergency contacts, submitted by applicants, were verified by the EMS Board for the renewal of licenses issued for the period of April 1, 2013 to March 31, 2015.	The Board will continue to review fitness to practice requirements and make any necessary changes in advance of the next renewal of licenses (period of April 1, 2015 to March 31, 2017).
3.98	The Emergency Medical Services Board should validate the listed emergency callouts that applicants claim on their Emergency Medical Technician license applications.	All new and renewal license applications for the period of April 1, 2013 to March 31, 2015 are individually received and reviewed by the Provincial EHS Coordinator. All emergency callouts are validated prior to issuing of the license.	The Provincial EHS Coordinator will continue individual review and validation of emergency callouts submitted to the EMS Board prior to issuing of any license.
3.99	The Emergency Medical Services Board should conduct random audits of Emergency Medical Technician licensees to ascertain whether the continuing education reported is valid and appropriate.	The EMS Board conducted a complete audit of all licensee registration files on April 1, 2013. The EMS Board has requested the Provincial EHS Coordinator to conduct monthly random audits of licensee files to ascertain whether continuing education is	The Provincial EHS Coordinator will continue to conduct random audits of licensee files and will maintain a record summarizing all licensee education expiry dates.

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
		current and valid and to summarize all licensee education expiry dates.	
3.106	The Emergency Medical Services Board should ensure that ambulances are inspected twice annually as required by the <i>Emergency Medical Services Regulations</i> .	The <i>Ambulance Services Act</i> came into force on September 1, 2013. As a result, the EMS Board no longer oversees the inspection of ambulances. The <i>Ambulance Services Act General Regulations</i> were updated and modernized. Health PEI conducts inspections of all ground ambulances twice annually. Health PEI has developed an electronic inspection checklist that is consistent with the <i>Ambulance Services Act Regulations</i> and maintains an electronic repository of all inspected ground ambulance records. Health PEI has allocated additional staff resources to the oversight of ground ambulance services.	Health PEI will continue to conduct random inspections of ground ambulances.

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.107	The Emergency Medical Services Board should implement internal control procedures to ensure ambulances are inspected prior to entry into service.	The <i>Ambulance Services Act</i> came into force on September 1, 2013. As a result, the EMS Board no longer oversees the inspection of ambulances. Health PEI now provides contractual oversight of the <i>Ground Ambulance Services Agreement</i> and oversight of adherence to legislation (including inspection of vehicles). The service provider must notify Health PEI in advance of vehicle purchases. Logistics regarding vehicle purchase and implementation is discussed including vehicle inspection.	
3.108	The Emergency Medical Services Board should implement internal control procedures to ensure deficiencies noted during ambulance inspections are followed up in a timely manner.	The <i>Ambulance Services Act</i> (ASA) came into force on September 1, 2013. As a result, the EMS Board no longer oversees the inspection of ambulances. Health PEI has developed an electronic inspection checklist that is consistent with the <i>Ambulance Service Act Regulations</i> and maintains an electronic repository of all inspected ground ambulance records.	

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
		Health PEI issues a report to the service provider on the inspection of each vehicle including deficiencies requiring attention. Major deficiencies noted during an inspection may lead to the vehicle being taken immediately out of service.	

SKILLSPEI

10.6 Following are the recommendations resulting from our audit of SkillsPEI reported in the 2013 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Innovation and Advanced Learning.

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.19	SkillsPEI should establish objectives congruent with its goals. Outcome based performance indicators should be developed that link to these objectives.	SkillsPEI began implementation of new data sets within its electronic system that will enhance accountability and performance measurement.	Updates to the operational electronic system to implement new data sets to enhance accountability and performance measurement are ongoing. Implementation is expected to be finalized by April 2014.
4.20	SkillsPEI should obtain information to assess its performance and provide the results in the annual report of the Department of Innovation and Advanced Learning.	SkillsPEI has been developing and implementing outcome based performance measurement requirements into its operational system.	Outcomes obtained through the update to the operational electronic systems will be provided in SkillsPEI's annual report.
4.23	SkillsPEI should strengthen its process for tracking, documenting, and approving policy changes and ensure all significant program policy changes are formally authorized by the Deputy Minister.	A process has been developed to track, document and approve policy changes. All policy changes are formally authorized by the Deputy Minister.	
4.30	SkillsPEI should use a competitive process to contract for employment assistance services that are provided to the general population.	SkillsPEI has utilized a competitive process to contract employment assistance services to the general population to satisfy its service delivery requirements under the Labour Market Development Agreement.	

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.31	SkillsPEI should develop criteria for selecting organizations to deliver employment assistance services (EAS) to specific client groups.	Since SkillsPEI does not seek out EAS services for particular client groups, a competitive process is not required. Organizations requesting grant-based funding to deliver employment assistance services to specialized groups will have their proposals assessed based on the merit of the proposal. SkillsPEI is currently establishing criteria to assist staff in assessing proposals.	
4.34	Where required by Treasury Board policy, SkillsPEI should seek Treasury Board approval to enter into contractual arrangements.	SkillsPEI now seeks Treasury Board approval to enter into contractual agreements where required by Treasury Board policy.	
4.38	For funding agreements with external service providers, SkillsPEI should monitor results against targets and where necessary follow up and document any resulting action required.	A standardized reporting document for external service providers and guidelines are being utilized by all staff.	
4.39	SkillsPEI should obtain and review annual financial statements of contracted service providers.	SkillsPEI is obtaining and reviewing financial statements of contracted service providers.	Staff will be provided guidelines to ensure a standardized review is completed for the collected financial statements.
4.44	SkillsPEI should revise the contract terms to reflect the requirements for the service provider to submit periodic claims supporting actual expenditures for the period.	All contracts now reflect the requirement for service providers to submit periodic claims supporting actual expenditures.	

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.45	SkillsPEI should develop and document procedures to guide the work of program officers in validation of claims.	Procedures and guidelines have been developed to guide program officers in the validation of claims and are now being utilized by all staff.	
4.51	SkillsPEI should ensure that payments under the Training PEI program are made in accordance with terms and conditions established in policy.	All payments are now made in accordance with terms and conditions established in policy.	
4.54	SkillsPEI should verify that clients have made the required contribution to their training costs as required by policy.	SkillsPEI now verifies clients have made the required contribution to their training costs as required by policy.	
4.59	SkillsPEI should obtain sufficient information to support payments to provincial educational institutions for differential funding.	SkillsPEI has received details of the differential calculation based on each course. SkillsPEI has reviewed the information provided and used it to plan a sample audit.	Arrangements are being made with Holland College for SkillsPEI staff to perform a sample audit within the near future.
4.63	SkillsPEI should obtain documentation to support that the initial and interim monitoring of TrainingPEI agreements has been completed by case managers as required by policy.	Policy has been updated to further define SkillsPEI's role in monitoring TrainingPEI agreements.	
4.64	In accordance with policy, SkillsPEI should complete the final monitoring on TrainingPEI agreements.	Processes have been clarified to ensure all final monitoring is completed on TrainingPEI agreements.	
4.72	SkillsPEI should document the expectations and accountability requirements for the self employment coordinator services provided to SkillsPEI by Innovation PEI.	SkillsPEI no longer utilizes self employment coordinator services for the Self EmployPEI program.	

10. Update on Previous Recommendations

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.73	SkillsPEI should ensure all self employment coordinators report activities and results as required in the signed agreements. Significant variations should be followed up by SkillsPEI on a timely basis.	SkillsPEI no longer utilizes self employment coordinator services for the Self EmployPEI program.	
4.76	SkillsPEI should obtain information to ensure that monitoring required by policy is completed by the self employment coordinators.	SkillsPEI no longer utilizes self employment coordinator services for the Self EmployPEI program.	
4.81	SkillsPEI should ensure initial and interim monitoring required by EmployPEI program policy is carried out and documented in the files.	The EmployPEI monitoring form and guidelines have been implemented and provided to staff.	
4.82	As required by policy, SkillsPEI should complete final monitoring of EmployPEI agreements prior to release of final payments.	SkillsPEI has developed and implemented a process to ensure final monitoring is completed prior to release of final payments.	
4.87	In accordance with Treasury Board policy, payments made by SkillsPEI should be appropriately authorized.	All payments are now being appropriately authorized.	

**PROVINCIAL NOMINEE PROGRAM:
FOLLOW-UP ON THE USE OF PROCEEDS AGREEMENT**

10.7 Following are the recommendations resulting from our audit of the Provincial Nominee Program: Follow-up on the Use of Proceeds Agreement reported in the 2013 Annual Report of the Auditor General. The status of implementation of the outstanding recommendations is provided based on information received from management of Island Investment Development Inc.

2013 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
5.31	Island Investment Development Inc. should complete the review of its sample of businesses that had a signed <i>Use of Proceeds Agreement</i> and report the conclusions in its Annual Report.	IIDI published its findings in its 2012-13 Annual Report.	No further action planned.
5.32	Island Investment Development Inc. should determine and report publically on what its sample results mean to the population of businesses that had a signed <i>Use of Proceeds Agreement</i> .	IIDI reported the results publically in its 2012-13 Annual Report.	No further action planned.
5.34	Island Investment Development Inc. should publish its Annual Reports on a timely basis.	The 2010-11 and 2011-12 Annual Reports of IIDI were released in January 2013. The 2012-13 Annual Report was published in September 2013.	No further action planned.

LONG TERM PLANNING AND ACCESS - COMMUNITY MENTAL HEALTH

10.8 Following are the recommendations resulting from our audit of Long Term Planning and Access - Community Mental Health reported in the 2012 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Health and Wellness and Health PEI.

2012 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.26	The Department of Health and Wellness should develop a comprehensive long-term plan for community mental health.	In April 2012, the Throne Speech announced a comprehensive review of mental health and addiction services and supports. In July 2013, Policy Board • reviewed a consultant's study and endorsed an Action Plan on Addictions for Executive Council consideration. • directed the Department of Health and Wellness to develop a submission to Executive Council recommending the establishment of a senior leadership position to oversee the implementation of the Action Plan and a strategy for releasing the consultants' report and determining a process for implementation of the findings. In September 2013, Executive Council endorsed the establishment of a Chief Mental Health and Addictions Officer	The Mental Health and Addictions Review did not go as far as expected. The consultant raised concerns about time and budgetary constraints as well as the broad scope and complexity of the project. It will now be necessary to carry out additional tasks in the next phase of the work. The newly appointed Chief Mental Health and Addictions Officer will be responsible to oversee the strategic actions and planning required to evaluate the feasibility and priority of the report's recommendations. It is further expected that this senior appointment will provide clear direction for achieving the needed strategic planning for a whole-of-government approach to achieving a long-term vision and plan for the province.

10. Update on Previous Recommendations

2012 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
		position, and the implementation of the Addictions Action Plan.	
3.27	The Ministry of Health and Wellness should have a documented agreement with the NGO which at a minimum sets out • the funding provided; • the services to be delivered; and • the information required to demonstrate how the funding was used.	The Department of Health and Wellness signed a funding agreement in 2012-13 with the NGO which clearly outlined • the funding provided; • the services to be delivered; and • the information required to demonstrate how the funding was used.	The Department of Health and Wellness is currently negotiating a multi-year agreement for 2013-16 with the NGO modeled on the existing contract to ensure continued work and accountability for these services.
3.35	Health PEI should establish a guideline setting the minimum number of attempts for community mental health to contact clients for screening.	An intake policy and operational standard for Community Mental Health (CMH) referrals has been developed through research and a supervisory leadership group establishing the minimum number of attempts to contact for screening.	Policy and standards are being implemented and monitored by the CMH managers, supervisors, and the Director.
3.36	Health PEI should ensure referrals to community mental health are screened in the timeframe established in policy.	The intake policy and operational standard for CMH identifies that referrals will be prioritized so that hospital referrals, and those appearing most urgent are screened first.	Policy and standards are being implemented and monitored by CMH managers, supervisors, and the Director.
3.42	Health PEI should ensure referrals from hospital to community mental health are reviewed in the timeframe established in policy.	The intake policy and operational standard states that contact will be initiated within one business day for referrals from hospital settings.	Policy and standards are being implemented and monitored by the CMH managers, supervisors, and the Director.

10. Update on Previous Recommendations

2012 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
			Pursuing Quality and Excellence Program, a new program that focuses on continuous quality improvement activities is underway within HPEI. The QEH Mental Health Inpatient Unit is one of the sites for this project and it will involve both inpatient and CMH staff. It is intended to facilitate more seamless services.
3.59	Health PEI should take action to improve wait times for community mental health services.	The development of a report that better identifies wait time pressure points, relative to location and services, has been completed. Collaborative Mental Health in Primary Care is expanding the range of services in West Prince. Collaborative Mental Health in Primary Care began in Montague in October 2013. A Plan to expand Seniors Mental Health Resource Team as a provincial program has been endorsed. Group programming (Changeways and Coping Skills) has been increased throughout the province.	The wait times report will be refined to support targeted process and quality improvements. A shared Mental Health and Addictions operational improvement plan will be developed in the last quarter of 2013-14. Included in these plans will be admission and discharge criteria for inpatient mental health units to facilitate appropriate bed utilization as well as continued focus on core program development in CMH. A request for investment in the Seniors Mental Health Resource Team is being put forward within HPEI early in 2014.

10. Update on Previous Recommendations

2012 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
			A request for investment in Child and Youth Mental Health Services required to meet increasing demands is being put forward within HPEI in early in 2014. Capacity building and predictable access to group programming will continue. Process improvements resulting from workload measures in CMH will be identified and implemented. Collaborative Mental Health using the provincial framework will continue to be expanded.
3.60	The Director of Mental Health should obtain regular reliable information to monitor and manage wait times for community mental health services.	Within HPEI, a Health Information Unit staff person has been assigned to work with an electronic data extract. Work is currently underway to refine data extracted from the electronic system to create more accurate and specific measures of wait times and other indicators. Structural changes have been made to ISM to enable wait times reporting.	The wait times report will be refined to support targeted process and quality improvements. Additional structural changes may be required within the electronic case management system (ISM) to obtain regular and reliable information. This will require ITSS support and priority access to this support.

10. Update on Previous Recommendations

2012 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.61	Health PEI should establish target response times for community mental health referrals that are triaged as general or priority.	An intake policy and operational standard for CMH referrals has been developed through research and a supervisory leadership group establishing access targets. Because national benchmarks are not available, the standards have been developed through a process which included comparing against other similar jurisdictions and adapting existing best practice guidance where available.	Policy and standards are being implemented and monitored by the CMH managers, supervisors, and the Director. A more specific and accurate wait times report will assist to identify capacity limitations and pressure points. It is expected that the access targets cannot be met for all services and in all sites. In order to meet these targets, changes to service availability or expansion into tiers of care may be impacted. We have aligned the HPEI indicator (percent seen within 30 days and wait times) to focus on those in most urgent need. This will likely create an increasing gap in access for those in less urgent need.

10. Update on Previous Recommendations

2012 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.65	Health PEI should conduct and document periodic supervisory reviews of community mental health cases.	Supervisors regularly review cases with staff, though no work has been done to date to standardize the process.	A Supervisors Community of Practice has been established for Mental Health and Addiction Services. One role of this community of practice is to support the development of standards and adherence to these standards in day to day practice. Operational standards will be developed and implemented in 2014.

HIGHWAY CONSTRUCTION

10.9 Following are the outstanding recommendations resulting from our audit of Highway Construction reported in the 2012 Annual Report of the Auditor General. The status of implementation is provided based on information received from management of the Department of Transportation and Infrastructure Renewal.

2012 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
5.59	The Department of Transportation and Infrastructure Renewal should evaluate the impact of increasing the specification for target minimum asphalt compaction.	The Department has developed revised compaction specifications.	The revised compaction specifications will be incorporated into the <i>General Provisions and Contract Specifications for Highway Construction 2014</i> .
5.63	Management of the Materials Testing Lab should conduct and document periodic internal reviews of the work completed by lab personnel.	A laboratory technician review and certification protocol has been developed and testing of laboratory technicians has been conducted.	
5.73	The Department of Transportation and Infrastructure Renewal should develop a policy on the frequency and documentation required for inspections carried out by environmental field officers.	Noted	In the winter of 2014, a policy will be completed and approved by the Environmental Management section of the Department.

SPECIAL EDUCATION - EASTERN SCHOOL DISTRICT

10.10 Following are the outstanding recommendations resulting from our audit of Special Education - Eastern School District reported in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the Department of Education and Early Childhood Development.

2011 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.27	In accordance with the Ministerial Directive, the Department of Education and Early Childhood Development should evaluate and report on special education programs and services.	A draft of the <i>Review of Special Needs Program and Support Services</i> has been completed. The review focused on how the system can best support and strengthen the skills of classroom and resource teachers to meet the educational needs of all students including those with special needs. Both financial and pedagogical aspects were considered.	The <i>Review of Special Needs Program and Support Services</i> will be released in 2014. Steps will be taken to ensure that the accountability measures are understood and followed.
3.36	The Department of Education and Early Childhood Development should re-examine the funding formula in place for instructional special education resource positions.	In the spring of 2013, the Department met with senior staff at the English Language School Board (ELSB) and French Language School Board (FLSB) and reviewed the staffing process for 2013-14. At that time, all assigned special education resource positions were reviewed. Given that the new ELSB had become effective in September 2012, care was taken to assure that the accountability structure for all positions was consistent across the ELSB.	The Department will repeat this process in the spring of 2014.

10. Update on Previous Recommendations

2011 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
3.51	The Department of Education and Early Childhood Development should establish standards for the qualifications, experience, and training for special education instructional positions.	Senior staff at the ELSB have met with each school individually to discuss the role of resource, allocation of staff, and levels of training. Any identified staff allocation discrepancies were adjusted.	Senior staff at the ELSB will repeat this process prior to spring 2014. The process will be expanded to include school counselor roles, allocations, and levels of training.
3.59	The Department of Education and Early Childhood Development should establish and communicate clear criteria on what constitutes special education programming and services and which students should be recorded in the student database.	In September 2013, the Department employed a Special Education Policy Advisor to support the Senior Director of Learning and Early Childhood Development in overseeing the work required to develop policy regarding special education. This person, in conjunction with the working committee, will help establish and communicate clear criteria on what constitutes special education programming and services and which students should be recorded in the student database.	Steps will be taken to ensure that the criteria are clear and concise and that this information is shared with school boards and their respective schools.

FOOD SAFETY

10.11 Following are the outstanding recommendations resulting from our audit of Food Safety in the 2011 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on the information received from management of the Department of Health and Wellness.

2011 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.19	In accordance with Department policy, the Department of Health and Wellness should take action to provide public access to food safety inspection reports.	Information Technology Shared Services (ITSS) is currently undertaking database changes to accommodate the proposed new <i>Eating Establishments and Licensed Premises (EELP) Regulations</i> and replacement of the electronic system for Environmental Health. The Environmental Health (EH) Office continues to post warnings to the EH website on a monthly basis and responds to inquiries by the public and the media as required.	Completion of changes related to the new <i>EELP Regulations</i> are expected by March 31, 2014, and system changes will be implemented in 2014-15 to allow inspection reports to be posted online.
4.36	The Food Safety inspection form should be reviewed and updated to ensure it reflects the requirements of the <i>Eating Establishments and Licensed Premises Regulations (EELP)</i> .	The new PEI <i>Public Health Act</i> was proclaimed in September 2013. Changes to the <i>EELP Regulations</i> are scheduled for external consultation in January 2014. ITSS is working on the electronic platform required by EH to conduct inspections.	The new <i>EELP Regulations</i> , electronic platform, and inspection form are scheduled for implementation by the end of 2013-14.

SCHOOL MAINTENANCE - WESTERN SCHOOL BOARD

10.12 Following is an outstanding recommendation resulting from our audit of School Maintenance - Western School Board reported in the 2011 Annual Report of the Auditor General. The Western School Board was amalgamated with the Eastern School Board in 2013 to form the English Language School Board. The status of implementation of this recommendation is provided based on information received from management of the English Language School Board (ELSB).

2011 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
5.31	The Western School Board should develop a policy which at a minimum • identifies maintenance level standards it expects to achieve for its buildings, equipment, and playgrounds; • defines criteria for prioritizing its maintenance projects; • incorporates the roles and responsibilities of key players; and • refers to key legislation that impacts the maintenance of schools.	A draft Facility Maintenance Policy has been developed.	The Facility Maintenance Policy will be presented to the Board of Trustees of the English Language School Board for their consideration.

SECURITY ASSESSMENT - DRUG INFORMATION SYSTEM

10.13 Following are the outstanding recommendations resulting from our audit of Security Assessment - Drug Information System reported in the 2010 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI, who coordinated with Information Technology Shared Services (ITSS) to provide this update.

2010 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.32	The Department of Health in conjunction with ITSS should implement standard password controls for the Drug Information System (DIS).	All user accounts have unique usernames and passwords. Within our latest release, the account will also lock after three unsuccessful attempts.	Work is underway that will allow users to authenticate with their health network information. This may be available in the next release.
4.33	The Department of Health should work with ITSS to establish a series of baselines for system security settings in the DIS based on needs and common recognized standards.	Users are now limited on what they can access and modify within DIS based on their role.	Work will continue on setting standards for the different user roles that access the system.
4.48	Given the sensitivity and privacy of the information that is available on the DIS, the use of a local user account by an external service provider should be logged and monitored and/or shadowed during active service provider sessions by the Department of Health with support from ITSS.	DIS access has been restricted for those in a support role. Service providers all have unique usernames and passwords for logging into our system for daily operational support of the application (where required). Access is monitored through audit reports.	ITSS is working on a process to monitor backend database user accounts.

10. Update on Previous Recommendations

2010 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.57	The Department of Health should work with ITSS to establish a series of baselines for system security auditing of the DIS based on needs and on recognized standards. The auditing program should address the following: what is audited, how often logs are reviewed and what action should be taken on identified events.	Reports have been created to assist with auditing purposes. We currently monitor user activity and login location.	We will continue to create reports to assist with auditing as well as work on standards for identifying unusual activity.

IN-PROVINCE PHYSICIAN PAYMENTS

10.14 Following are the outstanding recommendations resulting from our examination of In-Province Physician Payments as reported in the 2009 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of Health PEI.

2009 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.39	The renewal forms for a PEI Health Card should state the basic criteria a person must meet to be eligible for Medicare coverage on PEI and applicants should be required to confirm that they meet these criteria during renewal.	Residents are required to respond to the renewal letters issued to the household prior to a health card expiring and the new cards are not issued until this response occurs, either by mail or by telephone.	Health PEI is reviewing the renewal letters and will revise the letters by June 2014 to include the eligibility requirements.
4.48	The Department of Health should use the information obtained from shadow billings to compare the costs and productivity of physician services under the various payment models.	The Manager of Alternate Pay Specialist Physicians position has been in place since May 2012 and is responsible for the administrative management of specialist physicians on alternative pay arrangements and the development of protocols to evaluate effectiveness of alternative pay arrangements. Health PEI continues to use both the shadow billings and fee-for-service information when it undertakes reviews of a physician service area as part of its on-going quality	Newer initiatives include policy development and a physician contracts database; currently both are in development. The policies will create an accountability framework around physician compensation and service delivery. The contracts database will allow better monitoring of contracts.

10. Update on Previous Recommendations

2009 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
		improvement initiatives, or when it receives requests for expansion of physician services. Through an RFP process, Primary Care division has hired a consultant to review and recommend a methodology to report the size of physician practices. Further improvements to managers' desktop access to financial reporting is being sought. A comprehensive payment analysis is completed and reviewed each year to assist identification of possible productivity issues when a physician is paid using more than one pay modality. Audits of productivity of physician services under the various payment modalities are on-going.	
4.66	Arrangements with the external service provider for the Integrated Claims System (ICS) should be formalized in a signed agreement and approved by Treasury Board as required by Treasury Board policy.	ITSS has completed its work with Risk Management and Legal Services, and the contract is now being reviewed by the service provider's legal department.	

10. Update on Previous Recommendations

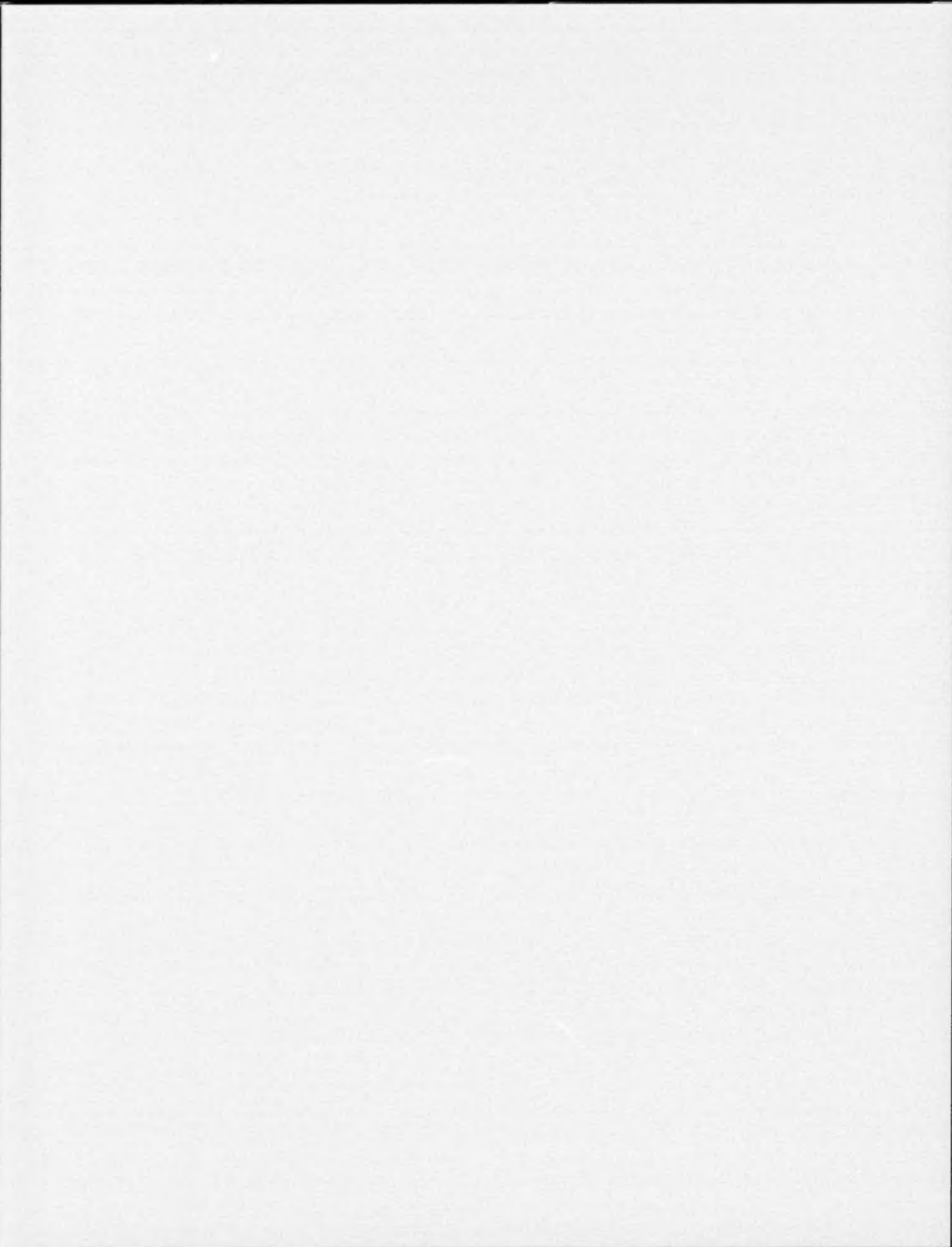
2009 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.72	The Information Technology Governance Council should formalize a Government Information Security Policy. ITSS in coordination with the Department of Health should apply the approved policy requirements to the Service Level Agreement for the Integrated Claims Systems.	ITSS has completed its work with Risk Management and Legal Services, and the contract is now being reviewed by the service provider's legal department.	ITSS plans on approaching Treasury Board before the end of 2013-14 seeking ratification of a Government Information Security Policy.
4.82	ITSS in coordination with the Department of Health should monitor the activity of users in the Integrated Claims System.	The new 4.0 ICS release introduced on July 8, 2013, now requires users to enter a username and password to log into the system separate from the network login. Medicare claims continue to capture the version history on each claim or resident profile update with username. All modifications that are being done on Medicare claims by users are being logged in the database.	
4.83	ITSS in coordination with the Department of Health should take the necessary steps to improve the usefulness of the monitoring report.	The new 4.0 ICS release introduced in 2013 has the ability to create reports to audit changes to Medicare claims.	

PEI ENERGY CORPORATION

10.15 Following are the outstanding recommendations resulting from our examination of the PEI Energy Corporation as reported in the 2007 Annual Report of the Auditor General. The status of implementation of the recommendations is provided based on information received from management of the PEI Energy Corporation.

2007 Paragraph Reference	Auditor General's Recommendation	Management Response	
		Action Taken	Action Planned
4.56	The Energy Corporation should develop a strategic plan that is linked to the renewable energy strategy and approved by the Board of Directors.	In 2013, the PEI Energy Corporation released its report - <i>Charting our Electricity Future</i> . Government is evaluating all recommendations arising from that report pertaining to the PEI Energy Corporation. In light of these recommendations, a draft strategic plan has been developed by the Corporation.	The draft strategic plan has been presented to the Board of Directors of the PEI Energy Corporation.
4.59	The Energy Corporation should prepare a business plan, linked to its strategic plan, that outlines planned activities and required resources.		A business plan will be developed upon the approval of the strategic plan.

PUBLIC ACCOUNTS COMMITTEE



11. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

11.1 The Standing Committee on Public Accounts is a committee of the Legislative Assembly. It is charged with matters concerning the Public Accounts of the province and the Auditor General's Annual Report. The Committee consists of seven members and is chaired by a member of the Official Opposition.

11.2 The Committee has a key role in the accountability process and assists the Legislative Assembly to hold government accountable for the use of public funds and the stewardship of public resources. The Legislative Assembly refers the Annual Report of the Auditor General to the Committee for consideration and review.

11.3 The Committee holds public meetings and through the Committee's deliberations and reports provided to the Legislative Assembly, it promotes a more open and accountable government. The Committee requires the Auditor General and other witnesses to appear and answer questions on matters raised in the Auditor General's Annual Report as well as other issues as the Committee deems appropriate. Through its efforts, the Committee contributes to improved accountability and effectiveness in government operations.

PROCEEDINGS AND RESULTS

11.4 During 2013, the Committee met seven times. The Auditor General was present at two of those meetings which dealt directly with the review of the 2013 Annual Report of the Auditor General. The Auditor General assisted the Committee in its deliberations and provided additional information and clarification as requested.

11. Public Accounts Committee

11.5 In its report to the Legislative Assembly dated November 19, 2013, the Committee endorsed all the recommendations and observations from the special audits and examinations section of the 2013 Auditor General's Annual Report to the Legislative Assembly. The Committee, in its report, also encouraged all departments and agencies of government to carefully consider the recommendations of the Auditor General and asked that the status of implementation of recommendations be reviewed and reported in the Auditor General's next report to the Legislative Assembly.

OFFICE OF THE AUDITOR GENERAL



12. OFFICE OF THE AUDITOR GENERAL

MISSION

12.1 The Office of the Auditor General conducts independent audits and examinations and provides objective information, advice, and assurance to the Legislative Assembly. The Office promotes accountability and best practices in government operations.

RESPONSIBILITIES AND FUNCTIONS

12.2 The mandate, authority, and responsibilities of the Auditor General are derived from the *Audit Act*. The Office conducts audits and examinations of provincial departments, Crown corporations, agencies, and funds. The Auditor General is required to report annually to the Legislative Assembly on the results of the audits and examinations conducted by the Office.

12.3 Financial audits include examinations of financial statements and other financial reports on which we provide assurance that the financial information is presented fairly, in accordance with the applicable reporting framework.

12.4 The *Audit Act* provides authority for the Auditor General to conduct any special audit or examination considered necessary to determine whether any agency of government is achieving its purpose, is doing so economically and efficiently, and is complying with the applicable statutory provisions.

12.5 In addition, the Act allows

- special assignments or investigations to be conducted at the request of the Lieutenant Governor in Council;
- the Auditor General or his designated representative to exercise all the powers of a commissioner under the *Public Inquiries Act* in examining any person under oath with respect to any matter which the Auditor General is authorized to check, examine, or audit; and
- the Auditor General to authorize any duly qualified person to conduct any audit or examination on behalf of the Auditor General.

12.6 The Auditor General reports annually to the Legislative Assembly and the report shall

- state whether in her opinion the Public Accounts of the province are presented fairly in accordance with the disclosed basis of accounting on a consistent basis;
- call attention to anything resulting from her examination that she considers necessary to be brought to the attention of the Legislative Assembly, including any cases where essential records and documentation of electronic data processing have not been maintained or the system of internal control is inadequate to
 - safeguard and protect the public property of the province
 - ensure the accuracy and reliability of the accounting data
 - promote operational efficiency
 - ensure adherence to prescribed governmental policies and procedures on financial matters;
- call attention to any infractions of the *Financial Administration Act* that have come to her attention;
- include information on deficits of any agency of government not covered by appropriation and any surpluses not paid into the operating fund;
- include a statement of the total amount of any claims, obligations, debts, or moneys that have been discharged, cancelled, and released under section 26 of the *Financial Administration Act*; and
- list in detail, appropriations made by special warrant and the purpose of such appropriations.

OPERATING PHILOSOPHY

INDEPENDENCE

12.7 The Auditor General is responsible to the Legislative Assembly, not government. The Office is positioned to offer impartial opinions and recommendations on government operations and management practices. The *Audit Act* establishes the legal framework for an independent audit office. The key components in building that independence include

- the existence of a Legislative Audit Committee which reviews the Office's budget;
- the authority to carry out audits and examinations which the Auditor General deems necessary;

- the right of access to records and information necessary to perform audit functions;
- the power to request and receive information or explanations required; and
- the requirement to report annually to the Legislative Assembly.

12.8 In addition, the independence of the Office is supported by our quality assurance policies and an Office code of conduct which includes, among other things, policy and guidance on confidentiality, ethics, impartiality, and potential conflict of interest situations.

OFFICE AUDIT PLANNING

12.9 An audit work plan is developed each year based on statutory requirements and audit priorities established by the Office. The annual workplan includes a number of financial audits as well as special audits and examinations. Special audits and examinations of departments, Crown corporations, and agencies are carried out based on prioritization of risk factors as well as a desire to provide broad audit coverage across numerous government organizations on a periodic basis.

12.10 Various factors are considered in establishing priorities for special audits and examinations. These include the financial magnitude of the entity or program, the possible matters of significance that may result from the audit, the complexity of operations or program delivery, the results of previous audits, the timing of the last audit and the potential impact on the public. Other factors considered in planning each audit include our audit mandate, expected resources required to complete the audit, and the quality of the existing internal controls within the entity.

PROFESSIONAL STANDARDS

12.11 Generally accepted accounting principles for public sector entities are established through the recommendations of the Chartered Professional Accountants of Canada (CPA Canada). In conducting our financial audits, we rely on these principles as well as other guidance provided by CPA Canada and other authoritative sources.

12.12 Our financial audits are conducted in accordance with Canadian Auditing Standards (CAS) for assurance engagements as promulgated by CPA Canada. The CAS require that the auditor complies with ethical requirements, plans and performs the audit to obtain reasonable assurance that the financial information is free from material misstatement, and allows the auditor to express an opinion. Special audits and examinations

are conducted in accordance with Other Canadian Standards as outlined in the CPA Canada Handbook. The standards provide guidance in the following areas: compliance with ethical requirements, knowledge of the entity, audit planning, implementation, and reporting.

12.13 For financial statement audits, the Office is subject to a periodic practice inspection which is carried out by the Institute of Chartered Accountants of Prince Edward Island. This process is designed to protect the public interest by ensuring the Office meets the standards required of the profession. The most recent practice inspection was conducted in November 2012 and a positive report was received.

12.14 The Canadian Council of Legislative Auditors (CCOLA) provides a peer review process for financial statement and special audits and examinations. This peer review process provides assurance that the Office is conducting audits in compliance with the applicable standards of CPA Canada.

PERSONNEL, RESOURCES, AND AFFILIATIONS

PERSONNEL AND RESOURCES

12.15 The Office staff complement consists of two audit directors, twelve professional auditors, one student auditor, and two administrative staff. Two auditor positions remain vacant and are not funded.

12.16 Funding for the operation of the Office of the Auditor General is by way of an annual appropriation approved by the Legislative Assembly. For the year ended March 31, 2014, the approved budgeted expenditures for the Office amounted to \$1,799,100 and are summarized in **Exhibit 12.1**. The Office's major expense is salaries and benefits which makes up 94 percent of the total budget for 2013-14.

EXHIBIT 12.1
OFFICE OF THE AUDITOR GENERAL
OFFICE BUDGET
YEAR ENDED MARCH 31, 2014

Account	Budget
Administration	\$ 32,600
Equipment	8,000
Materials, supplies and services	9,500
Professional and contract services	19,000
Salaries	1,689,600
Travel and Training	32,400
Contributions - CCAF	8,000
Total	<u>\$1,799,100</u>

12.17 Pursuant to the *Audit Act*, the Legislative Audit Committee, a standing Committee of the Legislative Assembly, is responsible for administrative oversight of the Office of the Auditor General. The Committee includes the Speaker of the Legislative Assembly, who is the Chairperson, the Leader of the Opposition, and the Minister of Finance, Energy and Municipal Affairs. On an annual basis, the Committee reviews the budget estimates submitted by the Auditor General.

**PROFESSIONAL
AFFILIATIONS**

12.18 The Office maintains a close association with a number of professional organizations to share experience and methodology with a view to contributing to the ongoing development of legislative audit practices. We also strive to remain current in legislative and other audit practices as well as new developments within the profession. Key affiliations include

- **The Canadian Council of Legislative Auditors (CCOLA)** - The meetings of the Council bring together legislative auditors of the federal government, the provinces, and the territories. These meetings provide an opportunity for professional development through information exchange, discussion, development, and enhancement of legislative audit practices. Office staff serve on various CCOLA committees and study groups.
- **The Public Sector Accounting Board** - The Office provides input and cooperates with the Board in its efforts to improve and harmonize

public sector accounting practices across Canada. The Board conducts research and issues recommendations on public sector accounting matters.

- **The Chartered Professional Accountants of Canada** - The Office maintains an important professional relationship with this organization and provides input and receives information on developments in the profession.
- **The CCAF** - The Office has been a member and supporter of the CCAF since its inception in 1980. CCAF is a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management, and audit.

OBJECTIVES AND ACCOMPLISHMENTS

12.19 In accordance with its mandate, the Office has established two broad goals as follows:

- *to promote improved accountability for, and management of public funds; and*
- *to continuously update our knowledge and skills within our field of practice and to work to the highest standard of our profession.*

In support of these goals, the Office has developed a number of objectives. The following paragraphs provide information on each of these objectives and the accomplishments during the year.

- (i) As required pursuant to the *Audit Act*, to prepare an Annual Report for the Legislative Assembly on the results of the audits that have been carried out.**

12.20 The Auditor General's 2013 Annual Report was tabled in the Legislative Assembly on March 26, 2013. The Report was referred to the Public Accounts Committee, and the Auditor General attended committee hearings to discuss each chapter in the Annual Report and provide additional information and explanations.

- (ii) To express audit opinions on the consolidated financial statements of the province and other agencies, boards, and Crown corporations subject to audit by our Office.**

12.21 An unqualified audit opinion was provided on the province's consolidated financial statements for the year ended March 31, 2013. In addition, we conducted a number of financial statement audits of Crown corporations, agencies, and pension and trust funds. This process provides assurance to taxpayers, through the Legislative Assembly, on the fairness of reported financial information.

- (iii) To perform selected special audits and examinations to determine whether departments and agencies are being managed with due regard for economy and efficiency and are complying with applicable statutory provisions.**

12.22 Our special audits and examinations provide observations on the management of public resources in a number of areas and include recommendations to improve management controls and practices where issues are identified. The amount of work in this area is impacted by audit resources available after all financial audits are assigned.

- (iv) To provide updated information on implementation of the recommendations arising from our audits.**

12.23 We provide updated information in our Annual Report on outstanding recommendations. Information is requested from senior management of departments and other government organizations on the action taken or planned to address outstanding recommendations.

- (v) To maintain technical competence in an evolving accounting and auditing environment.**
- (vi) To remain aware of and provide input to the development of public sector accounting standards.**
- (vii) To build leadership within the Office by providing professional development and training opportunities for staff.**

12.24 Our Office maintains an affiliation with the Chartered Professional Accountants of Canada which helps us to keep up to date on emerging accounting and auditing issues. We participate in the development of standards by providing comments during the discussion stages. In addition, we maintain professional affiliations with CCOLA and CCAF. This participation allows us to share knowledge and experience as well as receive information on newly developed methodology and emerging issues.

12.25 With the exception of one student auditor, all audit staff in our Office have professional accounting designations. We strive to provide training and professional development opportunities to staff. Individual staff members attend various professional courses, conferences, seminars, and meetings.

12.26 The Institute of Chartered Accountants of Prince Edward Island requires members to take a minimum of 20 hours of professional development per year and not less than 120 hours in a three year period. Our professional staff have met these training requirements.

NEW STRATEGIC PLAN

12.27 In 2014, we will be developing a new strategic plan for the Office. The planning process will involve input from key stakeholders and staff. The plan will help to guide the future direction of the Office and integrate measures to assess our progress in meeting key strategic goals.

SCHEDULES



OPERATING APPROPRIATIONS

	APPROPRIATION ACT 2012	SPECIAL WARRANTS	GOVERNMENT REORGANIZATION	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2013	UNDER/(OVER) EXPENDITURES 2013
CURRENT							
AGRICULTURE AND FORESTRY	\$ 37,531,900	\$ -	\$ -	\$(105,000)	\$ 37,426,900	\$ 36,348,403	\$ 1,078,497
AUDITOR GENERAL	1,770,100	-	-	-	1,770,100	1,593,541	176,559
COMMUNITY SERVICES AND SENIORS	93,133,800	-	-	-	93,133,800	91,682,546	1,451,254
INTERMINISTERIAL WOMEN'S SECRETARIAT	424,900	-	-	-	424,900	410,421	14,479
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	229,270,100	-	-	-	229,270,100	227,404,056	1,866,044
ISLAND REGULATORY AND APPEALS COMMISSION	1,358,300	-	-	-	1,358,300	1,358,300	-
ENVIRONMENT, LABOUR AND JUSTICE	60,071,700	350,000	-	-	60,421,700	60,177,358	244,342
EXECUTIVE COUNCIL	8,856,400	-	-	-	8,856,400	8,435,883	420,517
FINANCE, ENERGY AND MUNICIPAL AFFAIRS	65,306,300	-	-	-	65,306,300	63,620,012	1,686,288
COUNCIL OF ATLANTIC PREMIERS	188,400	-	-	-	188,400	186,983	1,417
GENERAL GOVERNMENT	7,758,900	-	-	-	7,758,900	7,661,457	97,443
EMPLOYEE BENEFITS	64,760,600	-	-	-	64,760,600	59,880,191	4,880,409
PEI ENERGY CORPORATION	543,800	-	-	-	543,800	543,800	-
FISHERIES, AQUACULTURE AND RURAL DEVELOPMENT	10,307,100	-	-	-	10,307,100	9,532,903	774,197
EMPLOYMENT DEVELOPMENT AGENCY	5,731,800	-	-	-	5,731,800	5,337,043	394,757
HEALTH AND WELLNESS	12,935,900	-	-	-	12,935,900	11,632,017	1,303,883
HEALTH PEI	542,717,500	-	-	-	542,717,500	542,717,500	-
INNOVATION AND ADVANCED LEARNING	123,483,700	-	-	-	123,483,700	121,058,535	2,425,165
INNOVATION PEI	22,320,200	-	-	-	22,320,200	22,320,200	-
LEGISLATIVE ASSEMBLY	4,860,300	-	-	-	4,860,300	4,859,397	903
PEI PUBLIC SERVICE COMMISSION	7,696,400	-	-	-	7,696,400	7,563,313	133,087
TOURISM AND CULTURE	9,943,000	-	-	-	9,943,000	9,433,025	509,975
TOURISM PEI	15,534,400	-	-	-	15,534,400	15,379,196	155,204
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	102,421,500	3,446,000	-	-	105,867,500	105,182,650	684,850
INTEREST CHARGES ON DEBT	<u>109,900,700</u>	<u>4,300,000</u>	<u>-</u>	<u>-</u>	<u>114,200,700</u>	<u>113,606,956</u>	<u>593,744</u>
TOTAL CURRENT	\$1,538,827,700	\$ 8,096,000	\$ -	\$(105,000)	\$1,546,818,700	\$1,527,925,686	\$18,893,014

Note: Appropriations and expenditures are presented in accordance with the classification in the *Appropriation Acts* 2012. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

CAPITAL APPROPRIATIONS

	APPROPRIATION ACT 2012	SPECIAL WARRANTS	GOVERNMENT REORGANIZATION	SEQUESTRATIONS	TOTAL APPROPRIATIONS	EXPENDITURES 2013	UNDER/(OVER) EXPENDITURES 2013
CAPITAL							
AGRICULTURE AND FORESTRY	\$ -	\$ 105,000	\$ 60,000	\$ -	\$ 165,000	\$ 164,873	\$ 127
COMMUNITY SERVICES AND SENIORS	-	-	750,000	-	750,000	492,418	257,582
COMMUNITY SERVICES, SENIORS AND LABOUR	750,000	-	(750,000)	-	-	-	-
EDUCATION AND EARLY CHILDHOOD DEVELOPMENT	19,361,200	-	-	-	19,361,200	17,976,819	1,384,381
ENVIRONMENT, LABOUR AND JUSTICE	-	-	1,350,000	-	1,350,000	735,629	614,371
ENVIRONMENT, ENERGY AND FORESTRY	210,000	-	(210,000)	-	-	-	-
FINANCE, ENERGY AND MUNICIPAL AFFAIRS	-	1,437,000	3,680,000	-	5,117,000	5,032,544	84,456
FINANCE AND MUNICIPAL AFFAIRS	3,680,000	-	(3,680,000)	-	-	-	-
HEALTH AND WELLNESS	-	77,200	-	-	77,200	77,136	64
HEALTH PEI	32,317,300	-	-	-	32,317,300	27,844,472	4,472,828
INNOVATION PEI	-	807,000	-	-	807,000	807,000	-
JUSTICE AND PUBLIC SAFETY	1,200,000	-	(1,200,000)	-	-	-	-
TOURISM AND CULTURE	490,000	-	-	-	490,000	430,058	59,942
TOURISM PEI	800,000	140,000	-	-	940,000	939,409	591
TRANSPORTATION AND INFRASTRUCTURE RENEWAL	<u>42,365,000</u>	<u>1,011,000</u>	<u>-</u>	<u>-</u>	<u>43,376,000</u>	<u>42,760,046</u>	<u>615,954</u>
TOTAL CAPITAL	<u>\$ 101,173,500</u>	<u>\$ 3,577,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,750,700</u>	<u>\$ 97,260,404</u>	<u>\$ 7,490,296</u>
GRAND TOTAL	<u>\$1,640,001,200</u>	<u>\$11,673,200</u>	<u>\$ -</u>	<u>\$(105,000)</u>	<u>\$1,651,569,400</u>	<u>\$1,625,186,090</u>	<u>\$26,383,310</u>

Note: Appropriations and expenditures are presented in accordance with the classifications in the *Appropriation Acts 2012*. This differs from the format used in the Operating Fund financial statements in that amortization of tangible capital assets is recorded as an expense and capital assets are capitalized in the Operating Fund financial statements.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CURRENT EXPENDITURES 2013 FISCAL YEAR

ENVIRONMENT, LABOUR AND JUSTICE

EC2013-717 PROVINCIAL POLICING SERVICES - RCMP

Professional and Contract Services

\$ 350,000

To fund costs associated with the payout of severance for the RCMP "L" Division.

TRANSPORTATION AND INFRASTRUCTURE RENEWAL

EC2013-179 CORPORATE SERVICES

Grants - Infrastructure

\$ 3,446,000

To fund additional costs to construct the PEI Convention Centre.

FINANCE, ENERGY AND MUNICIPAL AFFAIRS

EC2013-157 INTEREST CHARGES ON DEBT

Interest

\$ 4,300,000

To fund interest costs related to the issuance of promissory notes to both the Civil Service Superannuation and Teachers' Superannuation pension funds.

TOTAL SPECIAL WARRANTS FOR CURRENT EXPENDITURES

\$ 8,096,000

**ORDER-IN-
COUNCIL**

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2013 FISCAL YEAR

AGRICULTURE AND FORESTRY

EC2013-461 CAPITAL IMPROVEMENTS

Major Restoration and Renovations \$ 105,000

To fund the replacement of greenhouses at the J. Frank Gaudet Tree Nursery, fully offset by a sequestration of funds from Agriculture and Forestry - Current.

FINANCE, ENERGY AND MUNICIPAL AFFAIRS

EC2013-176 CAPITAL EQUIPMENT

Professional Services \$ 800,000
Computer Software 200,000

CAPITAL IMPROVEMENTS

Computer Hardware 437,000

Total \$ 1,437,000

To fund additional costs for capital projects of Information Technology Shared Services.

HEALTH AND WELLNESS

EC2013-177 CAPITAL EQUIPMENT

Computer Software \$ 77,200

To fund additional costs for the development of the National Routing System to facilitate implementation of an integrated birth registration and Social Insurance Number application, fully offset by Federal funding.

INNOVATION PEI

EC2013-178 CAPITAL PROJECTS

Machinery and Equipment \$ 807,000

To fund costs of laboratory equipment for the BioCommons Research park.

ORDER-IN-
COUNCIL

SPECIAL WARRANTS FOR CAPITAL EXPENDITURES 2013 FISCAL YEAR

TOURISM PEI

EC2013-106 CAPITAL IMPROVEMENTS

Machinery and Equipment

\$ 140,000

To fund costs for the retrofit of the quad chair lift at Brookvale Provincial Ski Park.

TRANSPORTATION AND INFRASTRUCTURE RENEWAL

EC2013-413 CAPITAL IMPROVEMENTS

Buildings

\$ 1,011,000

To fund the construction and associated costs of the new Provincial Analytical Lab.

TOTAL SPECIAL WARRANTS FOR CAPITAL EXPENDITURES

\$ 3,577,200

TOTAL SPECIAL WARRANTS ISSUED FOR THE 2013 FISCAL YEAR

\$11,673,200